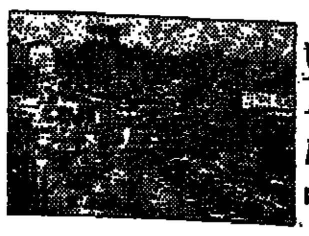

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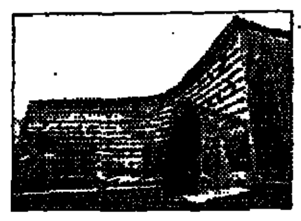

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FINANCIAL TIMES

Europe's Business Newspaper

MONDAY JULY 12 1993 D8523A

Merck president quits after seven months in the job

Richard Markham, president of Merck, the world's largest prescription drugs group, has resigned unexpectedly after just seven months in the post.

The 42-year-old Markham, who was also Merck's chief operating officer, was widely viewed as heir apparent to the company's chairman, Roy Vagelos. The move surprised analysts who suggested there was nothing in the company's recent performance to account for it. **Page 15**

Move to break trade logjam: Germany, in advance of today's resumption of the long dormant Uruguay Round of trade liberalisation talks in Geneva, has suggested channelling European Community funds to French farmers to win France's support for an agreement cutting farm subsidies. **Page 14; Tokyo claims advantage in numerical targets battle, Page 4; Editorial Comment, Page 13; Samuel Brittan, Page 13**

Debt talks may restart: Olympia & York USA is close to resuming talks with creditors on restructuring its US$5.3bn debt after settling disputes relating to its board of directors and other issues of corporate governance. **Page 15**

Segni looks to fight for middle ground

Mario Segni (left), leader of Italy's referendum movement, is expected to join forces with the cross-party Democratic Alliance movement this week in a union that could form the basis for a broad-based party capable of challenging the majority Christian Democrats for the political middle ground. Segni broke away from the Christian Democrats this year. **Page 14; Further arrest in water inquiry, Page 2**

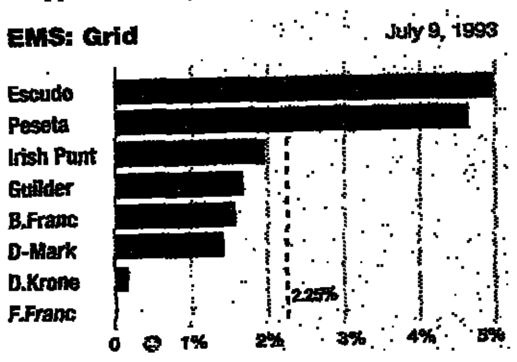
Denktash set to meet Nadir: Fugitive businessman Asil Nadir was due to meet north Cypriot president Rauf Denktash last night. The meeting comes amid further signs that the island government is co-operating to block the efforts of the administrators to Polly Peck International, Mr Nadir's former company. **Page 14**

Disaster area grows: The US government declared 44 more Missouri counties disaster areas, adding to the six-state area in the Mississippi basin that has been devastated by floods. **Page 3**

Aluminium Company of America, world's biggest aluminium producer, has reported a 21 per cent drop in second-quarter net income before special charges. **Page 17**

Thatcher backs referendum: Splits in the ruling Tory party over Europe resurfaced as Baroness Thatcher, the former prime minister, said she would back attempts to win a referendum on the Maastricht treaty. **Page 5**

European Monetary System: The main focus in currency markets this week will be on the French franc which came under strong selling pressure in the European exchange rate mechanism last week. The franc is now at the bottom of the ERM grid. More importantly, its divergence indicator, which is a technical way of measuring a currency's value in the system, was registering minus 71 percentage points on Friday night. When a currency falls to minus 75 percentage points it is generally assumed that ERM central banks will intervene in the foreign exchange markets to support the ailing currency. **Currencies, Page 25**



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the EMS's narrow 2.25 per cent fluctuation band. In practice, currencies in the narrow band cannot rise more than 2.25 per cent from the weakest currency in that part of the system. The Spanish peseta and Portuguese escudo operate with 6 per cent fluctuation bands.

Economic union agreed: Belarus, Russia and Ukraine, the three former Soviet republics which created the Commonwealth of Independent States, have pledged themselves to a close economic union. **Page 2; The shadow of G7 feast, Page 2**

Russian roulette death: A former French rugby union international, Armand Vaquerin, shot himself dead while playing Russian roulette in a bar in the southern town of Béziers.

Bronfman sales: The troubled business empire controlled by Toronto's Bronfman family is making further disposals, selling its controlling interest in Consumers Packaging, Canada's biggest glass container maker, and a 50 per cent stake in a British Columbia paper mill. **Page 17**

Prost wins: Frenchman Alain Prost, in a Williams-Renault, won the British Grand Prix at Silverstone to increase his lead in the world drivers' championship. The other Williams-Renault driver, Damon Hill of the UK, was forced to retire with engine trouble when leading the race.

Visa plans small payments cross-border service

By John Gapper, Banking Correspondent, in London

VISA INTERNATIONAL, the credit card group, plans to launch a new service allowing individuals and small companies to make payments across borders in Europe next year, after testing the idea with a group of banks in 10 countries this autumn.

The Visa transfer system, which will compete with the Swift system established by European banks 16 years ago, comes amid signs of growing competition in the hitherto small market for low value cross-border payments.

Visa is to use its existing data network that allows member banks to debit others for credit card payments. Banks will for the first time be able to credit accounts in other countries through the network, and so make cross-border payments.

Individuals will be guaranteed safe transfer of sums from their own account to any other European bank in the Visa network within six days.

Charges and currency exchange rates will be set by the transferring bank.

Visa will charge the transferring bank for each transaction, and believes it can undercut transfer prices set by Swift for its network based in Brussels. Swift is working on plans to reduce its prices through bulk transfer of small sums.

Banks have been under pressure from the European Commission over high costs and long delays faced by people attempting to transfer money across borders. The Commission believes this is hindering the development of the single market.

However, banks have started to compete more strongly for low value payments – defined by Visa as below Ecu2,500 ($2,870). Although only 1 per cent of non-cash payments currently cross borders, this is expected to grow.

Visa believes its transfer services will mainly attract individuals, but it also plans to gain business from small companies such as retailers making value added transfer tax refunds to customers in other countries.

Mr Patrick Bowden, Visa's European marketing director, said the company believed there was "an excellent opportunity" to provide a cheaper, clearer and more reliable service than individuals are currently offered by European banks.

Mr Bowden said the Visa service would probably allow most payments to transfer within four

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Programme to focus on fight against poverty

World Bank plans to halt decline in quality of projects

By George Graham in Washington

THE WORLD BANK will today unveil a strategy to overhaul its management priorities and halt an alarming decline in the quality of projects in its loan portfolio.

The move is in response to a growing debate over the effectiveness of the world's multilateral development banks, the US in particular pressing for more effective use of its contributions.

Executive directors representing the Bank's shareholder countries agreed last week on a programme, entitled Next Steps, to remedy some of the problems highlighted last year by an investigative taskforce chaired by Mr Willi Wapenhans, a former senior Bank official.

Representatives from the Group of Seven leading industrial nations rejected an earlier draft of the programme as inadequate. But during three days of board meetings last week the directors agreed that the document is now "as close as we are going to get", in the words of one official.

The programme, coupled with moves to improve the transparency of the World Bank's operations by increasing disclosure and instituting an independent inspection panel, could have far-reaching effects on the way the Washington-based development institution does business.

Next Steps attempts to shift the World Bank's focus away from how much money it lends each year towards its mission to reduce poverty in the developing world, through changes in review processes and career incentives.

There will in future be more emphasis on detailed country reviews which will provide a framework for individual project loans. Promotions will also be based on how well projects perform, and not, as in the past, on the number and size of loans negotiated by staff.

"While commitment levels and the size of resource transfers cannot be ignored, the ultimate test of the Bank's operations is the performance of Bank-financed programmes, including their long-term development impact on our clients and particularly on the poorest segments of their populations," Next Steps says.

The Wapenhans report revealed problems with follow-through on loans: the proportion of projects in the World Bank's $138bn portfolio showing big problems nearly doubled from 11 per cent in 1981 to 20 per cent a decade later. Projects were taking an average of 2¼ years longer to complete than Bank staff estimated at the outset.

Environmentalist groups have criticised Next Steps for focusing too much on financial accountability and too little on improving the actual development impact of the Bank's lending.

Discussions on disclosure during last week's board meetings also made considerable progress, and a final document will be prepared over the summer. The creation of an inspection panel has proved more controversial, but a final paper is expected to be drafted by the World Bank's annual meeting in September.

Executive directors are leaning towards an appeals commission to respond to complaints from groups, such as local citizens, environmental and human rights groups, but insist the commission must be answerable to the board.

UN inspection team flies out of Iraq

Iraq yesterday sustained its defiance of United Nations weapons inspectors by refusing to allow equipment at two missile testing sites to be sealed.

A UN team led by Mark Silver, pictured in Baghdad on Saturday, spent less than 24 hours in the country before flying back to Bahrain after failing to persuade the Iraqi authorities to allow switches at the two sites to be sealed with wax. Iraq's refusal brings closer the threat of a UN-backed strike against its military sites. Report, Page 4

Bosnia's presidency supports federation

By Laura Silber in Belgrade

BOSNIA'S collective presidency said yesterday they had agreed on the outline of a plan to create a federation out of the war-torn republic as the chief UN relief official warned that humanitarian operations in Bosnia were in jeopardy.

"They [presidency members] agreed the constitutional make-up of Bosnia-Hercegovina should be along the lines of a federal state in which all citizens of three nationalities will have equal rights," said a statement read out by Moslem vice-president Ejup Ganic after the talks in Zagreb, the Croatian capital.

The announcement, agreed after two days of debate, is likely to be rejected by Serb and Croat leaders, who have eagerly backed the republic's ethnic partition.

The Bosnian plan rejects the principle of ethnic division and says provinces would have to be worked out on economic lines.

Serb leaders at the weekend reiterated warnings that the Moslems will be left with "nothing" if they reject a three-way partition.

Moslems have opposed the division of Bosnia fearing that it will leave them in isolated reservations that are not economically viable.

Most of the 10-member presidency have opposed the Serbo-Croat plan to partition the

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Finance ministers to hear UK defence over budget deficit

By Lionel Barber in Brussels

MR Kenneth Clarke, the UK chancellor of the exchequer, will today mount a defence against charges from his European Community partners that the British government is overestimating the impact economic growth will have in curbing its £50bn ($75bn) budget deficit.

The charges are likely to surface at a meeting of EC finance ministers in Brussels today. Mr Clarke is due to present Britain's plans for bringing its economy into line with the criteria for economic and monetary union in the Maastricht treaty.

However, some ministers may pull their punches to avoid further disharmony given renewed tensions in the European exchange rate mechanism and weakness of the French franc.

The franc could face more pressure in the foreign exchanges this week as traders try to test the strength of Franco-German monetary co-operation.

Last week the Bank of France intervened to support the franc, but the operation failed to stop the French currency falling below FFr3.40 to the D-Mark, little more than 3 centimes above its ERM floor of FFr3.433. The fall came as French short-term interest rates rose sharply. On Friday they were above German money market rates for the first time in nearly two months.

If the franc's decline continues, the markets will be watching to see if the Bundesbank comes to its rescue, allowing German monetary policy to be swayed by speculators, or whether it ignores the French currency's plight.

The European Commission makes no secret of its desire for the British pound and Italian lira to return to the ERM. Britain's floating exchange rate policy and the fact that it can expect higher economic growth in 1993 and 1994 compared to its EC partners may have coloured debate over its "convergence" plan.

During a recent meeting of the EC's secretive monetary committee, comprised of senior Treasury and central bank officials from the 12 member states, several members challenged the UK government's contention that more than two-thirds of the budget deficit was due to cyclical economic factors, and would therefore recede with economic recovery.

Others complained UK forecasts of a cut in the deficit from 8 per cent of gross domestic product this year to 3.75 per cent in 1997-98 still left the deficit above the Maastricht target of no more than 3 per cent.

The Ecofin meeting is also expected to discuss Commission plans to improve multilateral surveillance of member states' economies, possibly through common rules for drawing up convergence plans; the Group of Seven summit in Tokyo; and a possible successor to Mr Jacques Attali at the European Bank for Reconstruction and Development.

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garia	Lv25.00	Iceland	IKr215	Nigeria	Naira45	Slovenia	SLT220
atia	HRD5700	India	Rs40	Norway	NKr16.00	South Africa	R12.00
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Slav states pledge economic union

By John Lloyd in Moscow

BELARUS, Russia and *Ukraine, the three former* Soviet republics which created the Commonwealth of Independent States, have pledged themselves to a close economic union designed to knit together once more their devastated economies.

The agreement was announced at the weekend as waves made by the Russian parliament's decision on Friday to declare Russian ownership of the port of Sevastopol in the Ukrainian region of Crimea subsided, at least for the *moment*.

Ukrainian leaders appeared pacified yesterday by comments from Mr Boris Yeltsin on his return from the Group of Seven summit in Tokyo. The Russian president said he was "ashamed" of the decision.

The prime ministers of the three Slav states signed a "declaration on economic integration" which commits them to an economic treaty by September 1. This would sweep away both formal and informal barriers to trade, permit citizens of all three countries to live, work and buy property in the others and propose new institutions for developing a "common economic space".

Mr Victor Chernomyrdin, the Russian premier, hinted that the agreement would go "much further" than mere economic union – a possible reference to a clause in the declaration which says that "the governments proceed from the fact that economic integration cannot be effective in isolation without a wider, multilateral mutual action in the political, defence and legislative areas".

However, the agreement faces a number of hurdles before it can be taken at face value, not least that it is one among many such declarations which have barely addressed the growing distance between the members of the CIS.

It is only an agreement to agree – at the mercy of a worsening of relations between the *states over the next few weeks*, especially between Ukraine and Russia.

The union reunites the original signatories of the CIS agreement in December 1991 but leaves out the other seven *members, especially the Cen*tral Asian states of Kazakhstan, Uzbekistan, Tajikistan and Kyrgyzstan, all of which have clamoured to remain in the group.

Mr Vyacheslav Kebich, the *Belarussian prime minister*, denied that the non-Slav peoples had been left "out in the cold" but the declaration itself specified "certain conditions" which would be attendant on their joining the new "union within a union".

Mr Alexander Shokhin, the Russian deputy prime minister, said that a condition of membership was that the participating states should not be members of any other such union. However, the Central Asian states have already formed their own "common market".

Russia lurks in the shadows of G7 feast

By Leyla Boulton in Tokyo

RUSSIA emerged at last week's Tokyo summit as an intrusive *but inevitable presence at* Group of Seven gatherings as it struggles to switch from frightening superpower to market-based democracy.

The bearish figures of the two Borises – President Boris *Yeltsin and his equally tall* finance minister, Mr Boris Fyodorov – stood out in sharp contrast to their slight Japanese hosts in a vivid double act combining both the old and the new Russia.

While Mr Yeltsin used his talent for plain speaking to push for better access to western markets, the younger Mr Fyodorov reassured his western counterparts they have a solid interlocuter who knows the details of what further economic reforms involve.

Mr Yeltsin, despite joking at *a final news conference that he* would not be allowed back into *Russia if he returned the dis*puted Kurile islands to Japan, did little to mend fences with Tokyo. But he said he was prepared to discuss the sovereignty issue on a long-delayed bilateral visit in October.

Western leaders, confirming more than $43bn in aid and loans for Russia, treated the Russian leader with a mixture of tact and caution.

Mr Yeltsin was immediately *invited to next year's G7 gath*ering in Naples. As President Bill Clinton put it, Russia was of crucial political significance even if it did not yet qualify to become a full member.

The problems of other for*mer Soviet republics could not* help but follow Mr Yeltsin to Tokyo.

However, Mr Andrei Kozyrev, the foreign minister, was relaxed enough to talk, if only to comment on the various crises breaking out in the former Soviet Union.

He announced, for instance, *that Russia wanted United* Nations peace monitors to help Russian troops impose a settlement on the southern republic of Georgia and separatist Abkhaz rebels accused of receiving support from Russian troops out of Moscow's control.

This followed an appeal for humanitarian assistance sent to the G7 summit by Mr Eduard Shevardnadze, the Georgian leader, whom many G7 politicians know personally from his days as Soviet foreign *minister*.

But most worrying was Ukraine, whose President Leonid Kravchuk asked the G7 on the eve of the summit not to forget economic assistance to the second most powerful *republic after Russia. While Mr* Yeltsin was in Tokyo, it made new threats not to give up its nuclear weapons as required by the Start 1 disarmament treaty which the US and Russia wanted to ratify.

In an attempt to make it feel less excluded, Presidents Clinton and Yeltsin said they *would offer Ukraine a "trilat*eral deal" to encourage it to stick to earlier plans to become a nuclear-free state.

Georgian soldiers try to stop refugees getting on to a military aircraft at Sukhumi airport to flee the besieged city. Government forces broke an Abkhazian separatist blockade on Saturday

Further arrest in Italy mineral water inquiry

By Haig Simonian in Milan

ITALIAN police have detained Mr Ettore Fortuna, chairman of the country's mineral water industry association, on allegations of paying illegal political contributions.

His arrest follows similar charges on Friday against Mr Bruno Mentasti, managing director of the popular San Pellegrino brand, and Mr Giuliano De Polo, chairman of San Benedetto, and the arrest this month of Mr Carlo Violati, the former chairman of the Ferrerelle brand. Mr Violati allegedly paid L200m ($130,000) to speed Health Ministry investigations into the quality of his company's water.

The bubble burst for all four men after magistrates began interrogating Mr Giovanni Marone, the secretary of Mr Francesco De Lorenzo, the former health minister. According *to Mr Marone's testimony*, which has been widely leaked, Mr Fortuna paid about L250m to facilitate the introduction of new European Community mineral water standards into Italy.

The arrests *reinforce allega*tions that the Health Ministry was one of the most lucrative sources of funds for Italian politicians.

Mr De Lorenzo, who resigned in February after allegations of a *jobs*-for-votes scam in his native Naples, has since been told by magistrates he is under investigation for a string of alleged kickbacks and alleged illegal political contributions.

Among those arrested so far *following* testimony from Mr Marone are a number of top drugs company executives and executives from some of Italy's biggest advertising and public relations companies.

All are accused of paying kickbacks *to the ministry* to influence drugs policy or win business on Italy's big anti-Aids campaign.

● Mr Renato Marnetto, a former finance director of the state-owned Eni energy and chemicals group, *is reported to* have told magistrates that the company paid $20m to the Libyan government to prevent the full nationalisation of its assets in the 1970s.

The allegations, which come from normally reliable leaked testimony, claim the money was paid to Mr Abdessalam *Jallud, second* in command to Libya's leader, Colonel Muammer Gadaffi.

Balladur bonds success is 'vote of confidence'

By David Buchan in Paris

FRENCH Prime Minister *Edouard* Balladur yesterday confirmed that his special bond issue, linked to privatisation and designed to promote economic recovery, had brought in FFr110bn ($19.3bn) or nearly three times its target.

"A few months ago, the French gave us their votes," Mr Balladur said in reference *to his March election victory*, "and today they are entrusting us with their money." He claimed that the threefold oversubscription of the loan was "an exceptional sign of confidence" in the government.

But the fact that the "Balladur bond" issue has brought in far more money than any pre*vious state borrowing is also* due to its special advantages. These give subscribers preference in buying shares in companies which are to be privatised from this autumn, and enable them to switch from money market funds into tax-free share savings plans.

So, although the four-year Balladur bonds carry an interest rate of 6 per cent a year, the real cost *to the state* – and corresponding advantage to the bond's subscribers – is put by analysts at 7 per cent or more.

The original target for the bond issue had been set at FFr40bn. In an interview yesterday with Journal de Dimanche, the prime minister said he would use the "surplus" of some FFr70bn to "support business activity and to *reduce the public debt", for* example by repaying companies the value added tax refund they are owed by the state more quickly. This speedier VAT refund had already been announced by the government, however.

The prime minister said the bond issue's success and the *lowering of interest rates had* both safeguarded the state's welfare system and held the prospect of lower unemployment in coming months. It was therefore time, he said, for the French to stop worrying about the future by spending less and saving more. "They should realise that precautionary saving is now less necessary and that they can consume more."

Regional jostling ties up Yeltsin assembly

John Lloyd looks at new wrangling over a constitution for Russia

RUSSIA'S constitutional convention starts a new session today that seems certain to continue and deepen the fissures in the country's power structure over the future form of the state.

A new text of the constitution has been produced in the last few days by the convention's working group, a copy of which has been obtained by the Financial Times.

Like its predecessors, it is replete with rights and freedoms for the citizens of Russia, and is careful in many instances to emphasise the break between the formal documents of the Soviet era and the *present-day* intention to underpin the rights of a free people within a democracy.

However, the contentious parts of the draft constitution are not, for most people - except the die-hard communists who have their own document proposing a return to the dictatorship of the proletariat - the promulgation of human and civil rights. Instead, they lie in the competing powers and responsibilities of the federal centres and the regions and republics within the Russian federation.

It is the republican and regional leadership that Mr Boris Yeltsin, the Russian president, relied on when he bypassed parliament to bring together the convention - largely made up of regional representatives. However, though *this* has, for the moment, shifted the struggle from a forum in which he could not hope to gain assent to one better disposed towards him, he now runs up against the jealousies and fears of leaders who are trying to safeguard their own and their peoples' interests at a time when the centre seems to bring only inflation and taxes.

The response of the republics and *regions* has been to demand more and more autonomy. And, because earlier drafts favoured the republics over the regions (the republics marked ethnic territorial units reflecting the imperial nature of Russia's expansion in the 19th century), the latter are now declaring themselves republics in order to claim extra rights.

In the latest draft there has been a conscious effort to equalise the treatment of the "subjects of the federation".

For example, a small insertion in one clause gives the regions and the republics the right to make "laws", the scope of which is not defined, while another allows the possibility of accession to the federation by means of a separate treaty – thus opening the possibility of bringing in Tatarstan, the powerful republic which has always demanded special treatment.

At the same time, the drafters believe, anomalies have been ironed out of the relationship between the president and the *parliament - with the presi*dent in the superior position but with parliament having greater power than previously envisaged in initiating legislation and in deciding on the composition of the government.

An earlier clause which appeared to suggest that the *president* was *the highest* court in the land has been clarified to read that he will seek to arbitrate in disputes between the centre and the regions, or between the regions themselves - but if he fails, the case will revert to the courts.

However, the differences among the regions and republics appear to be too great to enable agreement today, or in the near future. The republics resent being reduced to the level of the regions: the regions will tolerate nothing less: all resent the special status of Tatarstan. Mr Sergei Shak*harai, the deputy premier who* has been the driving force behind the Convention on Mr Yeltsin's side, said at the weekend that "we should adopt an interim constitutional agreement instead" – a view shared by Mr Sergei Filatov, Mr Yeltsin's chief of staff.

See editorial comment, P.13

The most likely timetable now appears to be that a two to three week period will elapse in which the regions and republics consider the draft and make their views felt; in the likelihood that no compromise will be possible *among them*, there should be an attempt to adopt an interim constitutional agreement and an election law, allowing elections to a new parliament which – unlike the old Soviet era assembly – would have the credibility and the mandate to *agree the legal basis of the* state.

Mr Anatoly Sobchak, the influential mayor of St Petersburg and himself a lawyer, said in an interview with the Interfax agency that elections should be held at every level so that the system can renew itself as far as *possible and so that the legisla*tive assemblies across the Russian land mass "reflect the true balance of forces in the country".

With these forces still gathering and feeling their strength, unsure of their own and others' limits, and inexperienced in the interplay of democratic struggle – the constitutional process in Russia could be prolonged, perhaps dangerously so.

Russian ship tied up in web of creditors' claims

By Ronald van de Krol in Rotterdam

FOR 13 months, the Russian cargo ship Kapitan Kanevskiy has been chained to the quayside in Rotterdam harbour while lawyers argue in court about $4.4m in unpaid bills for the delivery of children's and women's clothing to the former Soviet Union.

The ship, operated by the St Petersburg-based, state-owned Baltic Shipping Company, was impounded *in June last year in* what is believed to be the first seizure of Russian physical assets over a payments dispute with western creditors.

The dispute is a minefield of complexities, raising difficult *questions about the ownership* of property and assets under the old communist system and whether they are applicable today. The details centre on the non-payment of goods in the crucial years 1990 and 1991, *when the Soviet Union col*lapsed in chaos and gave way to the Commonwealth of Independent States.

The case is arousing interest in the Netherlands, where at least 50 other companies with*out export credit insurance* are waiting to be paid for Fl350m ($185m) worth of goods supplied during this period.

Now the fate of the Kapitan Kanevskiy is starting to win attention abroad.

Alfred C. Toepfer, *the* German commodities trader, filed a petition in Rotterdam last week asking for permission to "arrest" a ship of the Russian Federation as part of its dispute with the Russian authorities about non-payment for deliveries of cigarettes, personal care products and other western goods in 1990 and 1991. No date has yet been set for the court's ruling.

The lawyer for the plaintiff in the Dutch case, a small Amsterdam-based trading company called Pied-Rich BV, maintains that the court battle could have implications for *other non-Dutch* creditors holding Russian claims.

> The proceedings raise questions about property rights under communism

"The Dutch laws on attachment are very liberal, meaning that a US company could have Russian property arrested in the Netherlands even if the claim does not involve the Netherlands," Mr Ton Steinz, of the Amsterdam law firm Steinz and Van der Veen, said.

Pied-Rich's dispute is not with its Russian customers or with the Russian shipping *company but* with the Russian state. It says the former Soviet Ministry of Merchant Marine guaranteed in 1990 it would act as the vehicle for paying the Russian customers' bills. This was agreed as part of a wider *arrangement whereby the* Dutch company was committed to finding cargo business for Baltic.

When $4.4m in bills for 1990 and 1991 were not paid, the Dutch company petitioned a Rotterdam court to *have* the Kapitan Kanevskiy, valued at some $16m, impounded in Rotterdam harbour. The ship has been under "protective arrest" since June 14 1992.

In court documents, lawyers for the Russian Federation accuse the Dutch company and its lawyers of abusing Dutch laws on property seizure and of attempting to use "blackmail" to get the Russians to settle their debts.

They say the impounding of the ship has already cost the *company Fl 1.75m in direct* costs as well as at least Fl3.5m in lost revenue.

The 13th lawsuit associated with the main legal case was heard in a municipal court last week. The proceedings turn partly on whether the ship can be considered Russian state property, raising a host of questions about *property* rights and leasing under the old communist system.

The main legal case, which centres on whether *the* ship can be sold at auction if the debt is not repaid, is expected to drag on into 1994.

A parallel arbitration case is pending in Moscow.

Although it is being watched by other *Dutch* companies, the case cannot necessarily be "extrapolated" to those of other creditors, according to one industry observer who is familiar with other uninsured Dutch claims. He noted that *the Pied-Rich* dispute involves a particularly complicated, tripartite payment system, as does the Toepfer case.

"Other creditors prefer to follow the diplomatic route so that they don't harm future *trading relations*," *he said*.

Spanish judge again rejects KIO plea to try ex-chairman

By Peter Bruce in Madrid

SPAIN'S senior financial crimes judge has for the third time this year rejected efforts by the Kuwait Investment Office to open criminal proceedings against the former chairman of the KIO, Sheikh *Fahad Mohammed Al Sabah*, and the former management of the KIO's troubled Spanish industrial investments.

The KIO claims that it lost all $5bn invested in Spain in the mid-1980s because of mis*management and that up to* $500m of this was stolen. The judge, rejecting a new KIO writ on Friday, said the Kuwaitis had produced no new evidence and there was no evidence in the writ of criminal conduct. The KIO will appeal, for the second time.

The tortuous efforts of the KIO *to get an investigation* opened in Spain coincide with indications that a civil writ issued against many of the same defendants in London is also likely to become bogged down in arguments over jurisdiction. *While the* KIO *is head*quartered in London, most of the allegedly criminal behaviour by former Kuwaiti and Spanish managers took place in Spain.

The new rebuff for the KIO in *Spain comes alongside* publication of a Kuwaiti parliamentary investigation into the KIO's big losses in Spain, in which a senior KIO official is quoted as saying he was told in 1990 by Sheikh Fahad not to speak of a secret transfer *of* $300m from Spain to secret KIO accounts as the money was being used to make "political" payments.

The transfer occurred during the Iraqi invasion of Kuwait, when the emirate was looking for international support to help eject the invaders. While the position of the Kuwaiti government is that no funds were used to make political payments and that the money was, indeed, stolen, the parliamentary commission report says it could not find a good explanation as to why it had been decided to make criminal charges in Spain and civil ones in the UK. It recommended that the KIO drop its traditional legal advisers, Stephenson Harwood.

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Rain is expected to ease, but east coast heatwave adds to weather problems

US flooding disaster area grows

By George Graham in Washington

THE US government yesterday declared 44 more Missouri counties disaster areas, adding to the six-state area in the upper Mississippi basin that has been devastated by weeks of rain and floods.

While weather forecasters predicted the rain would slacken over the next few days in the upper Midwest, Mr Elbert Joe Friday, director of the National Weather Service, warned there was now so much in the river basins that flooding could last for weeks.

"It could very well go toward the end of August," he cautioned yesterday.

The heavy rains have soaked acres of farmland and driven the Mississippi to levels that in many locations surpass the peaks recorded in the 1973 floods, the most devastating in recent memory.

Flooding has also closed the water purification centre in Des Moines, Iowa, depriving 250,000 people of clean water.

At the same time, the east coast of the US is caught by a heatwave. A week of temperatures above 95 degrees has taken more lives so far than the flooding in the Midwest.

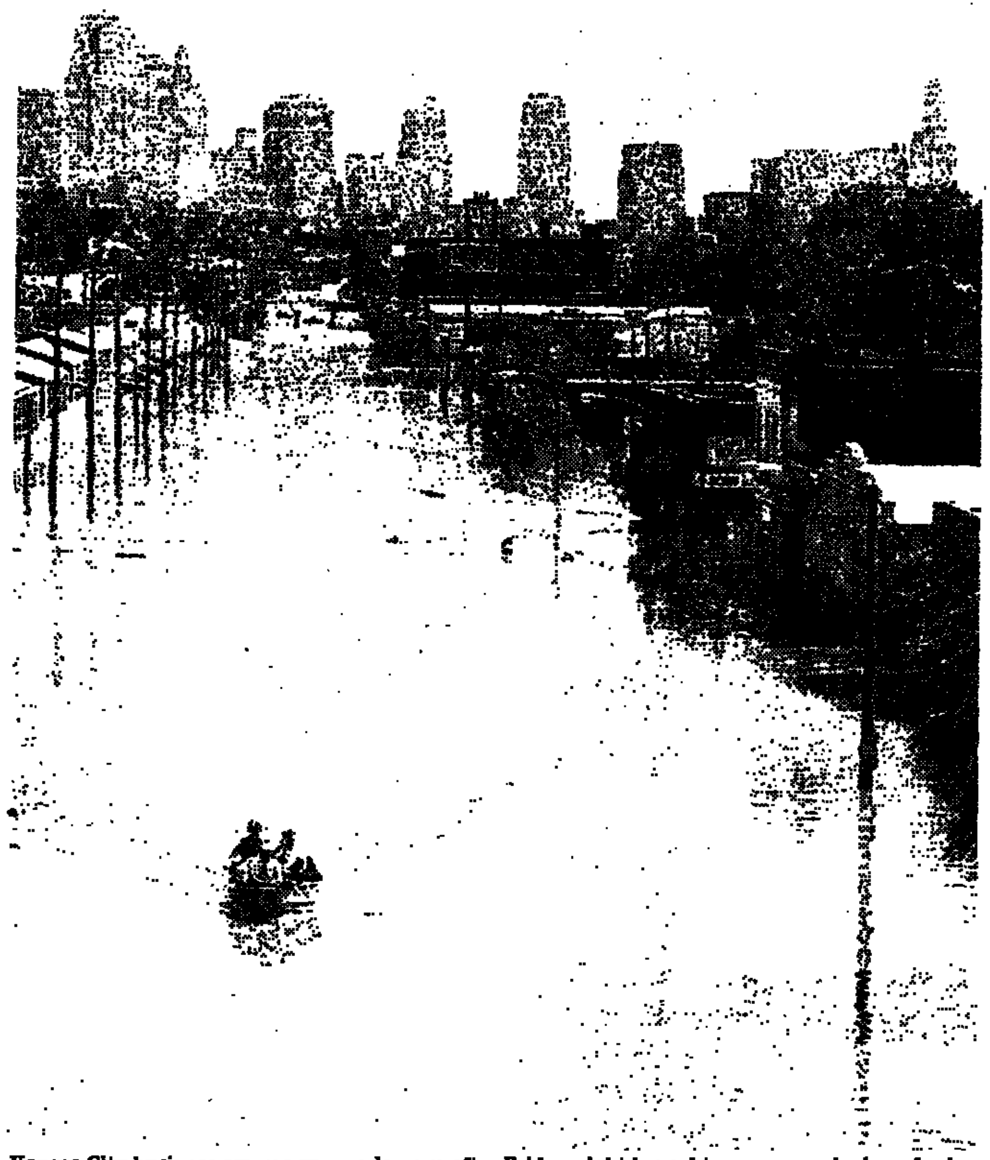
At St Louis, just below the Mississippi's junction with the Missouri, floods are expected to crest at 45 feet this week, higher than the 43.3 feet peak recorded in 1973. River flow at St Louis is expected to reach 1m cubic feet per second.

The great floods of 1844 are believed to have reached a flow of 1.3m cubic feet per second, but the destruction they caused was much less.

Some critics say developers have invited disaster by building in the flood plain, instead of up on the river bluffs as in the past. Efforts by the Army Corps of Engineers to control flooding with a programme of dams and levees may only have worsened the situation by confining the Mississippi within a narrower channel.

"Rivers are supposed to flood. You cannot control a river the volume and the size of the Mississippi," comments Ms Susie Wilkins of American Rivers, a Washington-based conservation group.

Other critics say the federal government has exacerbated the problem by not enforcing planning restrictions to divert development away from the riskiest areas as a *quid pro quo* for the cheap insurance it has provided since 1968.



Kansas City business owners survey damage after Friday night brought seven more inches of rain

US-Cuba phone links could mean softer line

Congress is starting to listen to more moderate Cuban voices, reports George Graham

AT first glance, relations between Cuba and the US have rarely been icier: Cuba's devastated economy is driving more people to flee the country, leading to more shootings by Cuban border guards and a flurry of diplomatic protests from the US.

"Because things are so desperate in Cuba and more people think the end is at hand, there have been more incidents that could provoke tension," comments Mr Ernest Preeg, former chief economist at the US Agency for International Development and author of a recent study on Cuba's economic prospects once the US trade embargo is lifted.

A State Department spokesman last week criticised Cuba's "barbaric" attacks both on US-registered boats trying to pick up refugees and on swimmers trying to reach asylum in the US Guantanamo naval base, on the island's southeastern coast.

This drew a sharp rebuttal from Mr Roberto Robaina, Cuba's foreign minister, who called the US complaint "an infamy, a provocation and, at the very least, a shameful lack of seriousness".

Telecommunications between Cuba and the US are also at one of their worst levels in years: last year's Hurricane Andrew destroyed AT&T's microwave links from south Florida and Cuba has now sharply cut the volume of US calls it will allow to be routed through Italy.

However, the US State Department is preparing new guidelines that could greatly ease telephone links with Cuba and mark a step along what some Cuba experts believe might turn out to be a path towards warmer relations. Significantly, some AT&T officials expect the new guidelines to allow Cuba to take some of the revenue from the telephone calls, instead of freezing it all in an escrow, as happens today.

Also indicative of a thaw has been President Fidel Castro's recent decision to allow some prominent dissidents to travel abroad, while last month, in a move that could have far-reaching economic consequences, he asked the national assembly to consider legalising use of the dollar in Cuba.

US Cuban policy has always been dominated by an argument over whether to use threats to finish the work of the trade embargo and topple the Castro government, or incentives to bring about change more quickly.

In political terms, the former school of thought, expounded by the Cuban-American National Foundation, a well-financed Miami exile group led by Mr Jorge Mas Canosa, has always dominated. It still commands a clear majority in Congress, but has lost some of its strongest supporters, such as Mr Dante Fascell, the Florida congressman who chaired the House of Representatives foreign affairs committee until his retirement this year.

Members of Congress have started to listen to some of the more moderate voices in the Cuban exile community. The House recently voted to kill funding for TV Marti, the US-financed propaganda station beamed to Cuba and closely aligned with Mr Canosa.

The new administration does not appear to have developed a clear Cuba policy yet. During the election campaign, Mr Bill Clinton took an even tougher line on Cuba than President George Bush, but his appointees include some who have in the past favoured more dialogue with Cuba.

Telephone links are one area where the two camps agree. The Cuban-American National Foundation, which in general opposes any easing of the embargo, backs easier and cheaper telecommunications, and this measure was included in a bill passed last year which otherwise sought to tighten the economic noose on Cuba.

Demand for phone links among the Cuban exile community is high. Even before the limited AT&T microwave link was destroyed by the hurricane, the company was able to connect only around 500,000 calls out of 60m attempted each year.

The cost of getting through to Cuba has risen sharply. AT&T says that if it could serve the island directly, its charges would average $1.55 (£1) a minute; with the service via Italy cut to a trickle, many exiles now dial pirate services in Canada, at prices ranging from $3.50 to $7.50 a minute.

Cuba prefers the Canadian links, because it receives a share of the revenue in the form of desperately needed hard currency. The restriction on AT&T's Italian traffic is seen as a bargaining ploy to weaken US insistance that all revenue go into the escrow account, which has an estimated $60m already.

Search for new NY Fed chief near end

By Patrick Harverson in New York

THE successor to Mr Gerald Corrigan as president of the Federal Reserve Bank of New York, one of the most powerful positions in international finance, is likely to emerge this week.

Mr Corrigan, who announced his decision to step down in January, is due to leave on August 20. If the search committee fails to make a recommendation at Thursday's monthly meeting of the bank's board of directors, it will have to wait until August 19. That would not leave enough time before Mr Corrigan's departure for the confirmation of the candidate by the governors of the Federal Reserve Board in Washington.

Three names have emerged as front-runners for the post, which is second only to the Fed chairmanship in importance in the US central bank system. But the selection process has taken longer than normal. One observer with a close knowledge of the Fed said last week: "I heard that there was a real fight over this. Someone clearly had a rough time making up their minds."

The front-runners are: Mr William McDonough, Mr Corrigan's number two in New York and the official responsible for implementing Fed policy in the domestic bond market and foreign exchange markets; Mr Thomas Melzer, president of the Federal Reserve Bank of St Louis; and Mr Gary Stern, president of the Federal Reserve Bank of Minneapolis. Mr McDonough is tipped by most insiders to win the job.

Others believed to have been considered include Ms Karen Horn, chairman of Bank One in Ohio and former president of the Federal Reserve Bank of Cleveland; Mr David Mullins, vice-chairman of the Federal Reserve; and Mr Richard Syron, president of the Federal Reserve Bank of Boston.

In the past, the New York Fed president has played a key role in helping the financial system survive crises, including the October 1987 stock market crash.

Last-chance talks for NY Post

NEW YORK Governor Mario Cuomo was yesterday involved in last-ditch talks to keep alive the New York Post after Mr Rupert Murdoch abandoned an attempt to buy the ailing newspaper on Friday, Martin Dickson writes from New York.

Mr Murdoch, running the paper temporarily under a contract from the bankruptcy court, ceased publication on Friday, saying the Post's 11 unions did not give him enough cost concessions to make the paper viable.

However, Mr Cuomo was at the centre of attempts to revive the negotiations and some officials hoped Mr Murdoch might be tempted back if the unions gave further ground.

See Observer

Nigerian parties fall in line

Politicians stand by man who created their jobs, reports Paul Adams

MILITARY coups have ousted civilians from power twice in Nigeria's recent history but the annulment of last month's presidential elections may have deprived Mr Moshood Abiola of power even before he was sworn in to office.

By co-opting both political parties, Mr Abiola's Social Democratic party (SDP) and the rival National Republican Convention (NRC), to back the idea of an interim government, President Ibrahim Babangida may succeed in overturning the mandate of the ballot box aided by civilian leaders.

The manipulation of the June polls had provoked serious divisions within the senior ranks of the military and mass protests on the streets of Lagos.

When Gen Babangida threatened to dissolve all democratic institutions, self-preservation brought the civilian politicians into line.

This is the fourth setback since 1990 to Nigeria's transition to democracy, which is unlikely to reach completion by the August 27 deadline. Gen Babangida proposes to hand over to an unelected interim government which would be approved by the military regime.

Except for an elected head of state, Mr Babangida has created every other democratic civilian institution during his overhaul of Nigerian politics and last week they came to his aid.

Party officials, elected leaders of local and state governments and members of the two-tier national and state assemblies enjoy the status and privileges of office while the standard of living among most Nigerians is in sharp decline.

In a speech broadcast at the end of June, the president said the elections, in which the SDP gained a clear majority, were so flawed that if the results were upheld it would provide an unsound basis for democracy after August. The NRC argued for fresh elections, which the SDP rejected.

Then came the ultimatum: dissolution of all democratic institutions unless the parties agreed to co-operate with the government by Friday morning. From all over Nigeria, anxious politicians converged on Abuja, the federal capital, to talk to the government which had created their positions.

"State governors were lobbying hard, late into Thursday night, to prevent their jobs being scrapped," said a federal government adviser in Abuja.

The parties agreed to form an interim government provided that "democratic institutions remain in place" and subject to agreement on "the composition and tenure of the proposed government".

However, there were signs of divisions among the parties trying to reach agreement over the weekend, with some SDP members still calling the deal a sell-out and the NRC demanding parity with its rival.

As he did after the annulment of the polls, Gen Babangida has summoned all his senior security service officers to Abuja before announcing his next move.

The role of Mr Abiola is unclear. The Sultan of Sokoto, head of Islam in Nigeria, made a rare political speech last Thursday in support of him.

The sultan is the foremost traditional ruler in northern Nigeria, where Mr Abiola as a southerner was expected to lack support. In the June polls the SDP won the majority of states in the north, including Kano, the home state of his opponent Mr Bashir Tofa. As Gen Babangida had promised six years ago, Nigerian politics had produced a leader who cut across ethnic boundaries.

Clinton tough towards N Korea

By John Burton in Seoul

PRESIDENT Bill Clinton yesterday offered more sticks than carrots to North Korea to persuade it to accept full nuclear inspections, as he ended his visit to South Korea.

With US and North Korean officials preparing to hold discussions on the nuclear issue in Geneva on Wednesday, Mr Clinton and Mr Warren Christopher, the US secretary of state, reaffirmed that Pyongyang must fully comply with international nuclear inspections or face UN sanctions.

"If we just stay strong and we stay resolute and we stay firm, we know that will work," said Mr Clinton as he toured the demilitarised zone that separates North and South Korea. "Eventually, we have to hope" that North Korea will take the sensible course."

"When you examine the nature of the American security commitment to Korea. . . it is pointless for them to try to develop nuclear weapons because if they ever use them it would be the end of their country."

The president promised there would be no cuts in the number of US troops in South Korea, now totalling 87,000, until the nuclear issue was resolved.

AT THE FRONT LINE: President Clinton is shown US defensive positions in the demilitarised zone between North and South Korea

Mr Christopher said in a meeting with his South Korean counterpart that any improvement in US-North Korean relations would depend on the progress in inter-Korean ties, ruling out the possibility that Washington might separately recognise Pyongyang in exchange for its full acceptance of nuclear inspections.

The US has attached other conditions to better relations with North Korea, including an improvement in human rights and renunciation of terrorism.

The US last month persuaded North Korea to suspend its withdrawal from the nuclear non-proliferation treaty during high-level talks in New York.

Mr Christopher said Washington would not tolerate North Korea dragging its feet endlessly during the new round of talks. If no appreciable progress was achieved within a resonable period of time, the nuclear issue would be referred to the UN Security Council for action.

UN team flies out of Iraq

By Mark Nicholson in Cairo

IRAQ yesterday sustained its defiance of United Nations weapons inspectors, and brought closer the threat of a UN-backed strike against its military installations, by refusing to allow UN experts to seal equipment at two missile testing sites south of Baghdad.

A UN team led by Mr Mark Silver, a US weapons specialist, abruptly flew out of Baghdad yesterday after failing to persuade the Iraqi authorities to allow switches at the two sites to be fixed down and sealed with wax.

Mr Silver's three-member team spent less than 24 hours in Iraq and left the moment it decided the Iraqis would not budge.

"I was not allowed to do what I went in for, and that is why I came out immediately," Mr Silver told reporters soon after arriving back at UN headquarters in Bahrain.

The team's failure to accomplish its task is certain to prompt a renewed collision between the UN and Iraq and raise the possibility of a military strike against the two sites.

Attacks on Israel blamed on Syria

ISRAEL yesterday blamed Syria for an upsurge in attacks by Arab guerrillas based in southern Lebanon and said it was considering how best to retaliate, writes Julian Ozanne from Jerusalem.

Mr Uri Lubrani, Israel's chief negotiator with Lebanon at the Middle East peace talks, said Syria was responsible for the latest escalation of artillery duels, which last week left five Israeli soldiers dead. "This escalation requires different treatment than others up to now," he said.

Syria, which has up to 40,000 troops in Lebanon, yesterday responded by saying Israel's self-declared security zone in southern Lebanon, scene of the clashes, was an "explosive trap".

Meanwhile, Mr Dennis Ross, US co-ordinator of the peace talks, is currently shuttling between Middle East capitals as part of an intense diplomatic effort to break the deadlock in the US-backed peace process.

Mubarak backed for re-election

Egyptian President Hosni Mubarak yesterday won the backing of 97 per cent of the People's Assembly to run as the sole candidate in the presidential elections, clearing the way for him to take up his third six-year term, Mark Nicholson writes from Cairo.

The petition makes the house's backing for Mr Mubarak all but certain on July 21, when it must formally endorse his candidature by a two-thirds majority. His nomination will then be put to a referendum in October, at which a simple majority will return him. He won 97.1 per cent of the votes in October 1987.

Clerics join Saudi cabinet

Saudi Arabia's King Fahd has made two senior Moslem clerics cabinet ministers and ordered the setting up of an Islamic guidance ministry, Reuter reports from Dubai.

Sheikh Abdel Aziz Bin Abdullah Bin Baz, a member of the influential Higher Council of Ulema, was named president of the council, a position that will now carry ministerial rank.

The decree also named Sheikh Bin Baz as the General Mufti of Saudi Arabia, the country's most senior religious post.

FT writers examine the differing perceptions in the US and Japan on the future of the framework trade deal

Tokyo claims advantage in numerical targets battle

By Charles Leadbeater in Tokyo

JAPANESE officials yesterday presented the weekend trade framework agreement with the US as a turning point, mainly because they believe it marks the first success of a more assertive Japanese approach to the US.

Japan will claim that it came out best from the main dispute which has dogged the negotiations since they started in April: whether numerical targets should set goals for Japanese policies to open up its markets to imports and reduce its current account surplus.

The Japanese approach on this issue marks a break with the past. In previous trade disputes, the Japanese have started by talking tough but eventually backed down. This time they started by publicly resisting numerical targets and did not back down when the US applied pressure.

Japan will claim that because the agreement does not explicitly mention numerical targets, it has won the day. The reality is that this central dispute over targets will continue, but on a different footing.

Tokyo has successfully resisted US demands that it should set its economic policies with the target of halving its current account surplus.

However, this does not mean Japan's powerful Finance Ministry has had it all its own way. Mr Kiichi Miyazawa, the prime minister, in spite of his weakness in the run-up to next weekend's elections, has forced the powerful bureaucrats to concede for the sake of the agreement.

The Finance Ministry had proposed saying that it would promote domestic growth, which would in turn "contribute" to reducing the surplus by increasing demand for imports. The wording of the agreement is substantially tougher than Japanese bureaucrats wanted.

The agreement says Japan will "actively pursue" strong and sustainable demand-led growth, which is "intended to achieve over the medium term a highly significant decrease in the current account surplus".

The short-term implications for Japanese fiscal and monetary policy are clear.

The upheaval in Japan's political system means that for weeks, if not months, the politicians will not be in a strong enough position to force the Finance Ministry to consider a further shot of government spending to revive the economy.

But the likelihood of a further pump-priming package in the autumn or early next year is now much higher. As fiscal policy is so politically constrained, in the short term the agreement will increase pressure on the Bank of Japan for a further cut in interest rates, which are at an record low of 2.5 per cent.

Japan has also resisted numerical targets for policies to open the domestic market to imports, especially vehicle parts, high technology goods and financial services.

The agreement says policies to open markets will be assessed using sets of "objective criteria", a phrase introduced to the talks by the Japanese. The content and role of these "criteria" is almost certain to be the subject of further rows between the two sides.

The US has backed down from its earlier call for Japan to accept as a goal a 33 per cent increase in its imports of manufactured goods over the next three years. The agreement does not commit Japan to making sure a share of its domestic market in particular sectors, such as autumotive components, is taken by foreign products.

The Japanese did not get everything they wanted. Tokyo wanted a US commitment that the "criteria" would not be interpreted as targets. The US has resisted this demand, so it is open to Washington to try to turn the criteria into goals to guide Japanese import promotion policy.

So the framework does not settle the central dispute about whether targets should be used, it merely puts the argument on a different footing.

Clinton sees new dawn in relations

By Jurek Martin in Seoul

"THIS is the rules of the game, not the game itself," insisted Mr Bowman Cutter, deputy head of the White House's national economic council. Reading from the same book, Mr Roger Altman, deputy Treasury secretary, pronounced: "It's an agreement about the rules, now we get to play the game."

The rules referred to are the new US-Japan negotiating framework to resolve bilateral issues announced with some fanfare, after all-night bargaining, in Tokyo on Saturday morning.

Both men, along with other US officials speaking privately, contend that the agreement, stamping the seal on President Bill Clinton's performance at the Tokyo Group of Seven summit, marks a new dawn in US-Japan relations in which the economic and commercial components assume, as the president wanted, a far more important dimension.

The "framework" agreement for subsequent negotiations is precisely that. It does not establish precise goals for shifts in Japanese macroeconomic policy, nor does it lay down criteria by which sectors of the Japanese economy can be made more open to US goods and services, and by extension to those of other countries.

But in tough language it lays out a negotiating timetable for these to be achieved and it commits Japan to making what the agreement calls highly significant macro and micro economic policy changes. As such, in the US view, it places Japan under a far tougher obligation than all previous attempts to settle bilateral disputes.

On the macro-economic side, the compact envisages mutually supportive policies whereby the US seeks to reduce its budget deficit while Japan aims to cut its global current account surplus.

It's an agreement about the rules, now we get to play the game – Roger Altman

At its current level of about \$130bn (£86bn), Japan's global current account surplus is equivalent to just over 3 per cent of GNP. The US envisages that this can be reduced, mostly by appropriate fiscal policies, to the target zone in "four to five years".

The unstated US agenda is that Japan should accomplish this less by its traditional method of front-loading public works spending and more by income tax cuts. While it may seem ironic for an administration that is proposing one of the largest tax increases in US history at home to press the reverse course on Japan, the US view is that this is the most effective means of generating the sort of consumer-led demand in Japan that will suck in imports.

What all this might do to the bilateral Japanese trade surplus with the US – \$50bn last year and rising fast – has not been made explicit. A recent estimate by the Washington-based Institute for International Economics contends that a cut to around \$40bn is the most optimistic outcome over a few years.

Much may depend on another, more controversial, aspect of the agreement – its insistence on greater sectoral access for imported products and services. The agreement makes no mention of numerical targets as such. However, it does accept that multiple criteria should be used to accept progress in opening Japanese markets. The US will want to use these criteria to set goals for policy, something the Japanese will resist.

Agreements in priority areas are to be reached over the next six months and ratified when the US president and the Japanese prime minister meet early next year, with the balance to be settled at a second get-together next July.

After two years both governments will decide whether to extend this framework agreement beyond the autumn of 1995.

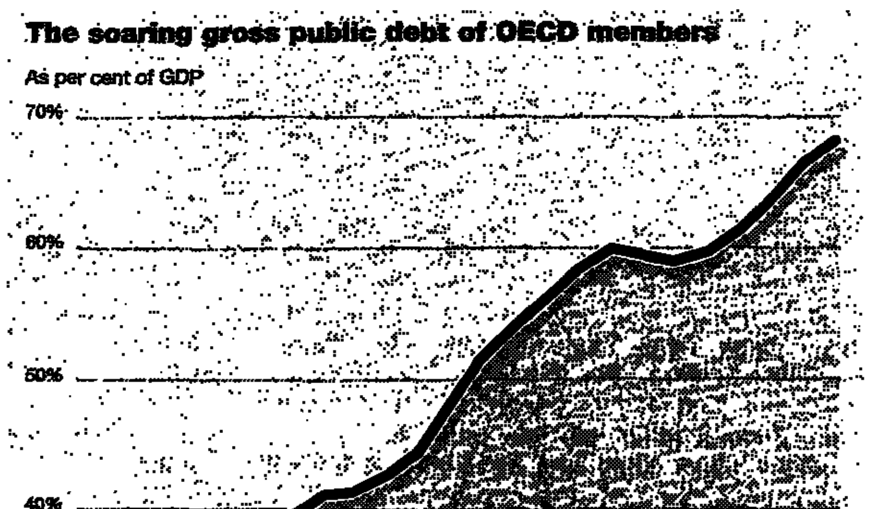
The five principal components of the sectoral access deal cover:

- Japanese government procurement, particularly in relation to purchases of foreign computers, supercomputers, satellites, medical technology and telecommunications.
- Regulatory reform, covering financial services, insurance, the distribution network and competition policy.
- "Other major sectors", particularly cars and car parts.
- Economic harmonisation, addressing issues affecting two-way foreign direct investment, including intellectual property and access to technology.
- Implementation – the monitoring of existing and future agreements.

The US team, led by Mr Cutter and Mr Altman and with substantial contributions from other treasury and trade officials, did not necessarily expect to conclude an agreement in Tokyo, especially with the Japanese elections just over a week away. The Japanese, they report, were particularly tough on the question of exemptions from US trade laws.

They may hang tougher still as the sectoral negotiations get serious, which is why the US reserves the right of retaliation under existing trade regulations. Mr Clinton may have made a powerful general case in Tokyo in identifying what he saw as the common cause between Japanese consumers and American workers but the appeal of that cause may fade as the two sides finally take to the field under the new "rules of the game".

The soaring gross public debt of OECD members



The looming crisis in industrial country public debt

What cannot continue will not do so. The accumulation of public sector debt by the governments of the industrial countries will have to stop. The question is how will it be stopped and when.

Over the past quarter century, the ratio of aggregate gross public debt to gross domestic product in OECD countries has risen from a little under 40 per cent, to 68 per cent (see chart). In only two brief periods has the ratio fallen: during the inflationary economic expansion of the early 1970s and again during the expansion of the second half of the 1980s.

Unfortunately, the rise in the debt ratio during recessions has more than offset the paltry declines during the expansions. No wonder the June OECD Economic Outlook remarks wryly on the need to avoid "the kind of mistake made in the late 1980s when some of the unexpected buoyancy of public revenues associated with above-average growth was used to reduce tax rates rather than to ensure greater fiscal consolidation and to reduce debt."

True, net public debt is not as daunting as gross public debt: for 1994 the OECD forecasts the former at 39 per cent. The net debt ratio has not risen as much either, by 9 percentage points between 1984 and 1994, against 14 percentage points for gross debt. But the trend is similarly adverse.

Of the seven industrial countries whose heads of government met in Tokyo last week, only Japan had managed a significant improvement in its public debt position between 1984 and 1994. Belgium and Italy already have outstanding net public debt greater than their GDPs. Particularly important, in view of the country's size, is the US deterioration, from a net public sector debt ratio of 24.9 per cent in 1984 to the 40.7 per cent forecast for next year.

High real interest rates put all debtors, including governments, on a treadmill. Since the beginning of the 1980s, long-term real interest rates have averaged between 4 and 7 per cent, says the OECD, with short-term rates little lower. In the stable 1960s, by contrast, real interest rates were 1 to 3 per cent. Consequently, real interest rates have been well above underlying rates of economic growth for a long time. Even though estimated long-term real interest rates have recently fallen, they remain higher than rates of economic growth, inevitably so during a recession.

The OECD explains these high real interest rates by:

- the fiscal and monetary policy mix, with fiscal deficits, in particular, averaging 3 per cent of GDP since the mid-1970s;
- investor demand for a premium against inflation risk, particularly important in the early 1980s; and
- the liberalisation and globalisation of capital markets.

If real interest rates on public debt exceed the economy's likely growth rate, as they have recently done, governments must run a primary fiscal surplus – an excess of revenue over non-interest expenditure – if the ratio of debt to GDP is to be kept stable. Should they run large primary deficits during a recession, they must run offsetting surpluses thereafter. The task can be daunting. Mr Major's government is now running a primary deficit of 5.7 per cent of GDP. This is two percentage points larger than the surplus in 1988.

The danger is of a vicious circle from deficits to interest rates and back again. If governments fail to run large enough primary surpluses, global real interest rates tend to rise. As public debt increases, the fear of debt crises also pushes up risk premiums in interest rates. Unsurprisingly, Italy is the only major industrial country whose estimated long-term real interest rates, at 6 per cent, are above their 1980-92 average, despite recession.

Governments that borrow in their own currencies do not default. They inflate. At present, investors are feeling tolerant towards most OECD governments. Whether they continue to do so depends less on whether current deficits are cyclical or structural, which nobody knows, and rather more on when investors think they will end. Governments that expect creditors to be infinitely forbearing are due for a shock.

Martin Wolf

INTERNATIONAL ECONOMIC INDICATORS: PRICES AND COMPETITIVENESS

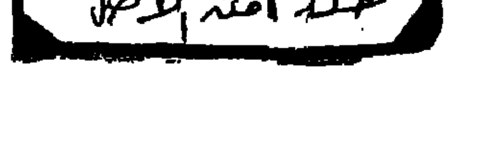
Yearly figures are shown in index form with the common base year of 1985. The real exchange rate is an index throughout; other quarterly and monthly figures show the percentage change over the corresponding period in the previous year and are positive unless otherwise stated.

	UNITED STATES					JAPAN				
	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1986	101.9	98.6	102.2	99.4	83.7	100.8	95.3	101.4	103.3	119.2
1987	105.6	100.7	103.8	96.7	74.9	101.2	92.5	103.1	100.6	123.3
1988	109.9	103.2	106.9	99.1	71.4	102.2	92.3	107.8	96.2	130.0
1989	115.2	106.5	110.0	101.1	75.0	104.9	94.2	114.0	96.1	122.1
1990	121.5	113.8	113.8	104.0	71.8	108.2	95.7	120.1	98.2	109.2
1991	126.6	116.3	117.3	107.3	71.3	111.8	96.8	124.2	101.8	116.2
1992	130.4	117.7	120.2	105.6	70.6	113.9	95.8	125.6	111.1	118.7
3rd qtr.1992	3.1	1.6	2.3	−1.1	68.1	2.0	−0.9	0.7	8.9	117.1
4th qtr.1992	3.0	1.6	2.2	−2.0	72.2	0.9	−1.2	−0.1	10.4	122.1
1st qtr.1993	3.2	1.9	2.8	−1.7	74.3	1.2	−1.1	−0.5	7.0	126.1
2nd qtr.1993					72.9	1.0				135.5
July 1992	3.2	1.7	1.7	−1.4	68.5	2.0	−0.8	2.0	8.7	116.8
August	3.2	1.6	2.6	−1.4	67.7	1.8	−0.9	−1.8	11.4	115.4
September	3.0	1.6	2.5	−0.5	68.1	2.2	−0.9	1.1	6.7	119.1
October	3.2	1.7	2.5	−1.6	70.3	1.2	−1.1	1.2	10.5	121.8
November	3.0	1.4	1.7	−2.4	73.1	0.6	−1.1	1.2	10.4	122.4
December	2.9	1.6	2.5	−2.0	73.3	0.9	−1.2	−1.0	10.3	122.2
January 1993	3.3	2.0	3.4	−2.1	74.4	1.0	−1.1	−3.6	10.1	122.0
February	3.2	1.8	2.5	−1.6	74.8	1.3	−1.0	1.3	7.3	126.5
March	3.1	2.0	2.5	−1.3	74.0	1.2	−1.2	1.0	3.8	129.4
April	3.2	2.4	2.5	−1.6	72.5	0.9	−1.3	1.9		132.6
May	3.2	2.0	2.5	−1.6	72.6	1.1				134.7
June					73.4	1.0				139.2

	GERMANY					FRANCE				
	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1986	99.9	97.5	103.8	103.7	107.0	102.5	97.2	104.5	101.5	102.9
1987	100.1	95.1	108.0	106.9	110.5	105.9	97.8	107.8	103.0	104.1
1988	101.4	96.2	113.0	106.7	109.9	108.8	102.6	111.1	104.3	101.8
1989	104.2	99.3	117.3	107.7	108.4	112.6	106.4	115.4	105.5	99.8
1990	107.0	101.0	123.8	110.2	110.3	116.5	107.1	120.6	110.0	102.9
1991	110.7	103.4	131.8	114.7	108.4	120.2	105.8	125.8	114.3	101.3
1992	115.1	104.8		121.1	110.5	123.0	104.0	130.3		104.7
3rd qtr.1992	3.5	1.0	n.a.	6.1	111.2	2.7	−0.9	n.a.	2.6	105.0
4th qtr.1992	3.7	0.5	n.a.	8.2	113.3	2.2	−1.6	n.a.		108.2
1st qtr.1993	4.3	0.5	n.a.	10.0	113.3	2.1	−2.3	n.a.		109.1
2nd qtr.1993	4.2		n.a.		111.8			n.a.		109.3
July 1992	3.3	1.1		8.9	110.5	2.9	n.a.	–	n.a.	104.4
August	3.5	1.1		5.2	111.1	2.7	n.a.	–	n.a.	104.6
September	3.6	0.6		4.3	112.0	2.6	n.a.	3.5	n.a.	106.2
October	3.7	0.5		7.8	113.7	2.4	n.a.	–	n.a.	108.8
November	3.7	0.5		10.3	112.4	2.1	n.a.	–	n.a.	108.0
December	3.7	0.5		6.6	113.6	2.0	n.a.	3.6	n.a.	107.9
January 1993	4.4	0.8		12.1	113.4	2.1	n.a.	–	n.a.	108.5
February	4.2	0.5		12.2	113.4	2.1	n.a.	–	n.a.	109.6
March	4.2	0.3		5.9	113.2	2.2	n.a.	3.4	n.a.	109.2
April	4.3	0.1			113.1	2.1	n.a.	–	n.a.	110.0
May	4.2	−0.3			111.7	2.0	n.a.	–	n.a.	109.3
June	4.1				110.6		n.a.		n.a.	108.7

	ITALY					UNITED KINGDOM				
	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1986	106.1	100.2	104.8	102.7	103.6	103.4	104.3	107.7	104.5	94.2
1987	111.0	103.2	111.6	105.5	104.9	107.7	108.3	116.3	105.9	94.2
1988	116.5	106.8	118.4	108.7	103.8	113.0	113.2	126.2	106.9	101.6
1989	124.2	113.1	125.6	112.3	107.4	121.8	119.0	137.2	113.6	100.9
1990	131.8	117.8	134.7	118.9	108.5	133.3	128.0	150.1	123.2	102.2
1991	140.3	121.7	147.9	131.3	107.7	141.2	133.0	162.4	130.3	105.8
1992	147.7	124.0	155.9	136.8	102.4	146.4	138.0	173.1	132.2	102.8
3rd qtr.1992	5.2	1.9	3.7	2.7	104.4	3.6	3.5	6.2	1.9	105.7
4th qtr.1992	4.8	2.2	2.9	6.4	93.0	3.0	3.4	5.7	−0.6	92.9
1st qtr.1993	4.3	3.1	2.8		85.9	1.8	3.7	4.8	−2.9	92.7
2nd qtr.1993	4.1				86.9					95.2
July 1992	5.4	1.9	4.0	n.a.	108.2	3.7	3.6	6.2	2.9	107.8
August	5.2	1.9	3.5	n.a.	106.5	3.6	3.4	6.5	1.8	107.0
September	5.1	1.9	3.7	n.a.	100.4	3.6	3.4	5.7	1.1	102.3
October	4.9	2.0	4.1	n.a.	92.8	3.5	3.3	6.3	0.1	93.8
November	4.8	2.2	2.1	n.a.	94.7	3.0	3.3	5.6	−0.4	91.3
December	4.6	2.5	2.4	n.a.	91.4	2.6	3.5	5.4	−1.4	93.4
January 1993	4.2	2.8	2.8	n.a.	88.0	1.7	3.6	5.0	−2.9	94.9
February	4.4	2.9	2.8	n.a.	86.0	1.8	3.7	5.1	−2.7	90.4
March	4.2	3.5	2.8	n.a.	83.8	1.9	3.6	4.2	−3.0	92.4
April	4.2		2.6	n.a.	84.3	1.3	3.8	5.2	−2.6	95.5
May	4.0			n.a.	88.0	1.3	4.0			95.5
June	4.2			n.a.	88.3					94.9

Statistics for Germany apply only to western Germany. Data supplied by Datastream and WEFA from national government and IMF sources, and by JP Morgan, New York. Consumer prices: not seasonally adjusted. Producer prices: not seasonally adjusted, US – finished goods, Japan – manufactured goods, Germany – industrial products, France – intermediate goods, Italy – total producer prices, UK – manufactured products. Earnings index: not seasonally adjusted, refers to earnings in manufacturing except France and Italy (wage rates in industry). Hourly except Japan (monthly) and UK (weekly). Unit labour costs: seasonally adjusted, measured in domestic currencies. Germany – mining and manufacturing, other countries – manufacturing industry. Real exchange rate: JP Morgan real effective exchange rate index versus 15 industrial country currencies, adjusted for change in relative wholesale price of domestic manufactures. A fall in the index indicates improved international competitiveness.



Goldman urged to return Maxwell funds

By Norma Cohen

GOLDMAN SACHS, the US-based investment bank, has been asked to return up to £56m to two pension schemes formerly controlled by the late Mr Robert Maxwell.

The request, made by two former Maxwell pension schemes, relates to transactions in 1990 in which Goldman Sachs acted as purchaser for shares in Maxwell Communications Corporation from the Mirror Group Pension Scheme and the Maxwell Communications Corporation Staff Scheme.

It is not clear on whose behalf Goldman Sachs was acting, but the shares were later repurchased by two Liechtenstein-based trusts controlled by Maxwell family interests.

This is the first time Goldman has been approached for payment in connection with the Maxwell family interests and their pension schemes.

The requests have been made in letters to Goldman Sachs from the pension schemes, which are now seeking detailed discussions.

Goldman is not believed to have rebuffed the request.

The Mirror Group Pension Scheme last year filed a writ against five UK and international banks seeking about £87m for assets which it claims were wrongfully taken from the scheme.

It is believed Sir John Cuckney, chairman of the trust which raises money for the Maxwell pensioners, is seeking talks with all banks against which the pension schemes are likely to pursue claims.

According to testimony last autumn before the parliamentary select committee on social security, Goldman purchased the shares from the two pension pension schemes but payment was made to a third party, Bishopsgate Investment Trust, a private entity which acted for the Maxwell family interests.

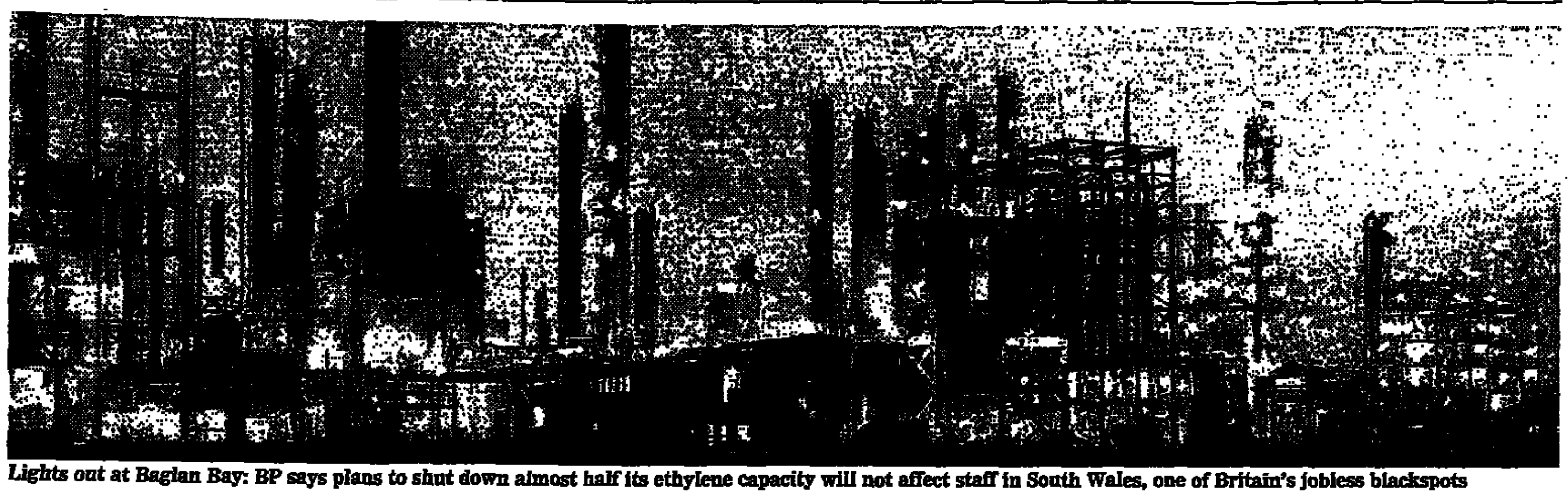
Goldman Sachs has said it paid the funds to BIT under the instructions of Mr Maxwell's son Mr Kevin Maxwell, who had been a trustee of both pension schemes at the time.

It is believed that the request for the return of the assets is based on two key questions raised by both schemes; first, whether Goldman Sachs could be branded a "constructive trustee" with a specific duty to safeguard scheme assets, and second, whether it obtained formal authorisation from the full trustee boards of both schemes to act on instructions of individual trustees for certain kinds of activities.

Neither Goldman Sachs nor trustees to the two schemes would comment on whether there had been talks between them over the assets. Auditors have found £440m missing from pension schemes controlled by Mr Robert Maxwell.

BP plans sharp cut in ethylene production

By Paul Abrahams



Lights out at Baglan Bay: BP says plans to shut down almost half its ethylene capacity will not affect staff in South Wales, one of Britain's jobless blackspots

BP CHEMICALS, a division of one of Britain's largest companies, intends to shut down nearly half its ethylene capacity at Baglan Bay in South Wales, removing about 150,000 tonnes a year of the raw material from the European market.

BP Chemicals claims the market in Europe for ethylene, the raw material for most plastics, is suffering from significant over-capacity, poor demand and low prices.

The smaller of the company's two production "trains" at the Baglan Bay site, which have a combined capacity of 330,000 tonnes a year, will not be restarted this autumn following a maintenance shutdown in September. BP insists the shutdown will not affect its 900 staff at the complex, one of the largest employers in the South Wales region.

The production line will be kept operable in case market demand and prices improve.

Mr Stephen Pettit, chief executive of BP Petrochemicals has admitted the site is the division's most marginal. However, it is reluctant to close the complex completely. The remaining train, with a capacity of about 180,000 tonnes will continue to provide ethylene for downstream activities including ethanol, vinyl acetate and styrene.

BP said the maintenance cycle for the larger train would be increased from three years to four years as part of a cost-cutting move.

Most European ethylene manufacturers are not covering their cash-costs because of poor prices. Two new complexes – BP's 350,000 tonnes a year expansion at Grangemouth, Scotland, and EniChem's 360,000 tonnes a year plant at Brindisi, Italy – have taken European capacity to 18.5m tonnes a year aggravating the supply position further.

The market is likely to worsen when BASF of Germany brings on a further 600,000 tonnes a year capacity at Antwerp later this year.

BP believes the European petrochemicals industry must adopt rapid decisive measures or face slow death. It has has specifically called on German manufacturers to cut capacity.

Mr Pettit has argued that 2m tonnes a year of ethylene capacity has to be retired in Europe, and that German companies linked up to the ARG pipeline system should play a significant role in that reduction.

At the end of last year BP decided to close its 50,000 tonnes a year butadiene unit at Baglan Bay with the loss of about 40 jobs.

BA faces dirty tricks questions

By Robert Peston

MR BRIAN Basham, the former public relations adviser to British Airways who was sacked earlier this year for his part in the alleged dirty tricks campaign against rival carrier Virgin Atlantic, has launched a campaign to clear his name and embarrass Sir Colin Marshall, BA's chairman.

Mr Basham has submitted four questions for BA's annual meeting. In his submission, Mr Basham suggests that BA's account of Sir Colin's role in the dirty tricks campaign has been misleading.

Although BA has admitted its use of computer data about Virgin passengers was wrong, the carrier has denied board involvement.

Mr Basham, says in his submission, which has been sent to Sir Colin, that "it remains entirely implausible to me ...that you could not have known" of the misuse of computer data. He also alleges that Mrs Gail Redwood, the company secreatry, offered her resignation after directors signed a disclaimer denying all knowledge of the alleged dirty tricks campaign.

Mrs Redwood yesterday refused to comment.

BA's annual meeting will be held on Tuesday. The airline said the company had received questions from 2,000 shareholders, a third of which relate to the Virgin affair.

Thatcher backs EC referendum

By Ralph Atkins

SPLITS in the ruling Tory party over Europe re-surfaced last night as Baroness Thatcher, the former prime minister, said she would back attempts to win a referendum on the Maastricht treaty.

Baroness [formely Mrs Margaret] Thatcher, intends to speak when the House of Lords, Parliament's upper chamber, debates a referendum amendment on Wednesday.

But yesterday she denied her intervention would amount to an attack on Mr John Major.

"It will be a furtherance of what I have believed in for a very long time," she said, adding that "never" sought to damage her successor.

Government business managers are confident that her call for a referendum will be comfortably defeated. But there is more nervousness about debates, expected to be held on July 26, in the Commons and Lords on Maastricht's social chapter.

Mr Bill Cash, the Tory MP and prominent opponent of Maastricht, indicated yesterday he may vote for the social chapter in the hope of it wrecking the treaty legislation.

Government business managers believe many Euro-sceptics will be under pressure from constituency associations not to vote for the social chapter, which most Tories oppose more than the treaty itself.

Britain in brief

IT spending 'may be out of control'

Spending on information technology – telecommunications, computers and software – rose by 9 per cent last year to about £4.5bn and may be running out of control, according to a study today by Price Waterhouse Management Consultants.

Its latest annual IT Review, based on a survey of 1,000 executives in the private and public sectors, found that budgets had overrun for the third year in succession.

The latest increase contrasts with a rise of just 1 per cent forecast by the same executives at the start of last year. It brings the increase over the last three years to nearly 50 per cent, and underlines the difficulties facing IT executives in controlling costs.

Tabloid price war looms

Mr Rupert Murdoch, the newspaper proprietor, has launched what could turn into a bitter tabloid circulation war in Britain by announcing a 5p price cut for The Sun, part of the News International stable.

The move is designed to boost flagging popular newspaper sales in the difficult summer market and put pressure on The Sun's main rivals – the Daily Star and Daily Mirror. Mr David Montgomery, chief executive of Mirror Group Newspapers, said the Daily Mirror had no intention of responding.

Gas charge claims denied

British Gas has rejected allegations that the price increases for competitors using its pipeline, which it withdrew last week, would be reinstated after the Monopolies and Mergers Commission report on the gas industry due in three weeks' time. But it has not ruled out putting prices back up after a review.

"Nothing is ready to go on the table; the price rises may be too high, too low or just right, but we will review that," an official said. Some of British Gas's competitors regard the company's decision last week to withdraw price increases of up to 30 per cent as a cynical delaying tactic to remove an area of potential controversy before the MMC report.

Protest urged on aid funding

Britain should suspend its £620m contribution to the International Development Association of the World Bank until it improves its poor record on aid, according to Friends of the Earth, the environmental group.

Ahead of today's debate on IDA funding in Parliament, FoE says that the IDA has a worsening record of project failure, and that many of its projects have had a damaging impact on the environment.

Agency work may be split

The work of Companies House, the government's corporate information agency, may be divided between up to 12 private sector businesses, under privatisation proposals being considered by the Department of Trade and Industry.

Responsibility for fining companies which failed to file accounts on time and selling the information they provide would be split between a series of competing registrars.

Warning on governance

The Stock Exchange is considering publicising companies which fail to adequately explain reasons for divergence from the Cadbury code on corporate governance.

Officials are discussing circulating periodic lists of companies which have not complied with the code, which was published last December, and highlighting individual accounts which do not include a statement.

ECONOMICS

Further drop likely in inflation

This is a busy week for economic indicators, particularly in the UK where data relating to May and June are due out.

The figures are likely to show that inflationary pressures remain light, with further falls in average earnings and underlying inflation. Special attention will be paid to Thursday's unemployment figures which may record their fifth successive monthly decline although even after four month-on-month drops, economists are not convinced that the jobless total has peaked.

Further gains in UK manufacturing output are expected for May, but they are likely to be more modest than in April, when output rose a strong 0.7 per cent month-on-month.

In the US, analysts are expecting encouraging reports on inflation. Sharp falls in crude oil, heating oil and tobacco prices are expected to push the overall level of producer prices downwards.

The following are some of the week's other economic highlights and events. The figures in brackets are the median of economists' forecasts from MMS International, a financial information company.

Today: UK, June producer prices index – input (flat on month, up 7.3 per cent on year), output (up 0.2 per cent on month, up 4 per cent on year), excluding food, drink and tobacco (up 2.6 per cent on year). France, June CPI (up 0.1 per cent on month, up 2 per cent on year). Spain, June unemployment rate (16.4 per cent). Belgium, EC finance ministers meet in Brussels to discuss Maastricht convergence criteria. Switzerland, Bank of Japan chief attending BIS meetings until Wednesday. Canada, May department store sales (down 1.5 per cent on year).

Tomorrow: UK, May manufacturing output (up 0.2 per cent on month, up 3.1 per cent on year), industrial production (up 0.4 per cent on month). Spain, June CPI (up 0.2 per cent on month, up 4.8 per cent on year). Norway, June trade excluding ships and oil platforms (NKr7.1bn). Germany, cabinet meeting in Bonn to pass 1994 budget draft. US, June PPI (down 0.2 per cent), excluding food and energy (unchanged), June Atlanta Fed Index; Johnson Redbook, week ended June 10. Japan, May machine orders excluding electrical and ships (up 3 per cent on year); June trade balance ($10.3bn surplus).

Wednesday: UK, June RPI (up 0.2 per cent on month, up 1.5 per cent on year), excluding mortgage interest payments (up 3 per cent on year). France, national holiday, all markets closed. US, June retail sales (up 0.4 per cent), excluding cars (up 0.4 per cent), CPI (up 0.1 per cent), excluding food and energy (up 0.2 per cent), real earnings; car and truck sales July 1-10. Canada, June lead indicators (down 0.2 per cent on month). New Zealand, Q2 CPI.

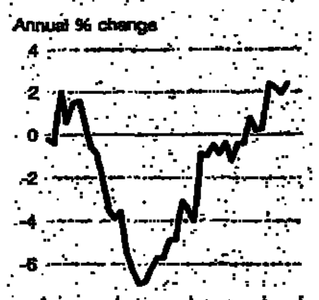
Thursday: UK, June unemployment (unchanged on month); May average earnings (up 4 per cent on year), unit wages (down 2.8 per cent in latest three months). Germany, Bundesbank council meeting in Frankfurt for the annual M3 review. Sweden, June CPI (down 0.2 per cent on month, up 4.8 per cent on year). Finland, June CPI (up 2.6 per cent on year). US, initial claims week ended July 10 (335,000); state benefits week ended July 3; May business inventories (up 0.3 per cent); July Philadelphia Fed Index; money supply for week ended July 5; June M1, M2, M3. Canada, June CPI (up 0.1 per cent on month, up 1.7 per cent on year), excluding food and energy (up 1.7 per cent on year). Japan, June WPI (down 0.5 per cent on month, down 3.2 per cent on year); May industrial production, shipments. Australia, May housing finance. New Zealand, April retail trade.

Friday: UK, June PSBR (£5.25bn). US, May merchandise trade ($9.2bn deficit), merchandise exports ($38.4bn), merchandise imports ($47.4bn); June industrial production (down 0.1 per cent), capacity utilisation (81.4 per cent); July Michigan sentiment preliminary. Canada, May merchandise exports (up 0.7 per cent on month), merchandise imports (unchanged), merchandise surplus (C$1.2bn surplus), manufacturing new orders (down 0.2 per cent on month).

During the week: Germany, March trade balance (DM1.7bn surplus), current account (DM4bn deficit). June WPI (flat on month). Spain, June M4 (up 6 per cent on year), May PPI. Netherlands, May PPI; June unemployment rate (5.1 per cent). Switzerland, June trade balance (SFr500m surplus). Australia, Dun & Bradstreet business expectations survey released. Reserve Bank of Australia release July bulletin.

UK manufacturing output

Annual % change



Source: Datastream

RESULTS DUE

US growth expected to boost Tomkins

Tomkins, the UK conglomerate, is expected to report profits of £174m and earnings of 13.5p in the year to May today. This compares with £132.1m and 12.7p a year earlier. Growth is expected to have been driven by a stronger performance in the US and for the first time will include profits from Ranks Hovis McDougall, the milling and baking group it bought last year.

MFI, the furniture group, is expected to report a fall in pre-tax profits today to about £43m, from £66.1m last year. Analysts downgraded their profits forecasts at the half-year results in January, when MFI said trading had declined sharply after Black Wednesday damaged consumer confidence.

It also said sales had been down year-on-year in the first five weeks of its 10-week new year sale, which usually accounts for about 30 per cent of annual turnover.

The Rank Organisation announces half-year results on Thursday, with pre-tax profits expected to be at or below last year's £94m. Some forecasts are as low as £82m, based on a poorer performance from Rank Xerox.

The first half is not a good guide to the performance of Rank's directly-managed businesses – such as holidays, video duplication and bingo – where profits tend to come in the second six months. More eagerly awaited will be statements on current trading.

Few expect anything definitive on the group's future relationship with Rank Xerox.

Great Universal Stores, the UK's largest mail order company, which reports on Thursday, is forecast to lift pre-tax profits from £441.5m to between £465m and £470m. The dividend is expected to rise from 40p to 43p.

Analysts believe the company will have benefited from a increase in mail-order buying, while its market share continues to rise.

UK COMPANIES

■ TODAY
COMPANY MEETINGS:
Govett American Endeavour Fund, Minden House, 6 Minden Place, St. Helier, Jersey, Channel Islands, 11.30
Lep Group, The London Press Centre, Johnson Room, New Street Square, EC., 11.30
Norcros, Insurance Hall, 20 Aldermanbury, EC., 12.00
BOARD MEETINGS:
Finals:
Aitken Hume
Border TV
Colorvision
Cray Electronics
Desima
Dalepak Foods
Ellis & Everard
Emess
MFI Furniture
Menzies (John)
Optometrics
Reject Shop
Savills
Tomkins
Interims:
Barr (AG)
Low & Bonar

■ TOMORROW
COMPANY MEETINGS:
Aegis, 2 Eaton Gate, SW., 8.30
Albright[on], 135 Alport Street, Cannock, Staffordshire, 12.00
Brazilian Inv. Trust, Exchange House, Primrose Street, EC., 12.15
British Airways, Barbican Centre, EC., 11.00
Dart Group, 35 St. Andrew's Hill, EC., 10.00
Friendly Hotels, Connaught Rooms, 61-65 Great Queen Street, WC., 11.00
Great Portland Estates, Cafe Royal, 68 Regent Street, W., 12.00
Henderson Administration, 3 Finsbury Avenue, EC., 12.30
Johnson Matthey, National Gallery, Trafalgar Square, WC., 12.00
Salvesen (Christian), Sheraton Hotel, Festival Square, Edinburgh, 11.00
Tibbeting Group, 22 Tudor Street, EC., 11.00
Young & Co's Brewery, Earl's Court Park Inn Intl., Lillie Road, Fulham, SW., 4.00
BOARD MEETINGS:
Finals:
Adam & Harvey
Birse
Bogod
Bulmer (HP)
Electron House
Helton
Jacques Vert
Prism Leisure
Real Time Control
Triplex Lloyd
Wyko

■ WEDNESDAY JULY 14
COMPANY MEETINGS:
Albany Inv. Trust, Port of Liverpool Bldg., Pier Head, Liverpool, 2.30
Barrs Hldgs., Barrs House, Naze Brook Road, Huthwaite, 12.00
Dawson Intl., Caledonian Hotel, Princes Street, Edinburgh, 12.00
Drayton English & Intl. Trust, 11 Devonshire Square, EC., 12.00
Finsbury Trust, The Imperial Hotel, Russell Square, WC., 12.00
Fleming High Inc. Inv. Trust, The Chartered Accountants' Hall, Moorgate Place, EC., 2.30
Kleinwort Endowment Policy Trust, 10 Fenchurch Street, EC., 12.30
RIT Capital Partners, The Royal Automobile Club, 89 Pall Mall, SW., 12.00
Rhs, Crompton House, Barrs Fold Road, Wingates Industrial Park, Westhoughton, Bolton, 12.00
Storehouse, Royal Lancaster Hotel, Lancaster Terrace, W., 12.00
BOARD MEETINGS:
Finals:
Armitage Brothers
Batleys
Nobo
Scantronic
Stanley Leisure
Tipbook
Interims:
BWD Securities
Leslie Wise
M & G Dual Tst.
Olim Convertible Tst.

■ THURSDAY JULY 15
COMPANY MEETINGS:
Airflow Streamlines, Northampton Moat House, Silver Street, Northampton, 12.00
British Inv. Trust, Donaldson House, 97 Haymarket Terrace, Edinburgh, 11.00
Fleming European Fledgling Inv. Trust, 25 Copthall Avenue, EC., 12.00
Gartmore Value Invs., 16-18 Monument Street, EC., 10.00
Hay (Norman), Surface Technology, Lower Ford Street, Coventry, 11.00
Hi-Tec Sports, The Moat House, Aviation Way, Southend-on-Sea, Essex, 10.00
Marks & Spencer, Grosvenor House Hotel, Park Lane, W., 11.00
Meyer Intl., Strand Palace Hotel, Strand, WC., 12.00
Oceana Consolidated, 25 Luke Street, EC., 10.30
Penna, Orion House, 5 Upper St. Martin's Lane, WC., 10.00
Plysu, The Brewery Conference Centre, Chiswell Street, EC., 12.15
BOARD MEETINGS:
Finals:
Druck
Gt. Universal Stores
Hampson Inds.
Jones Stroud
Jurys Hotel
Moorgate Inv. Tst.
Multitone Elect.
Verson Intl.
Welsh Water
Wood (John D.)
Interims:
Aberforth Smaller Co's.
Automated Security
Fleming Fledgeling Inv.
General Cons. Inv. Tst.
Rank Org.

■ FRIDAY JULY 16
COMPANY MEETINGS:
Alexon Group, Kent House, Market Place, W., 10.00
Drummond, Norfolk Gardens Hotel, Bradford, 11.00
Flextech, The Halkin Hotel, 5 Halkin Street, SW., 12.00
Ivory & Sime, Caledonian Hotel, Princes Street, Edinburgh, 12.30
Property Partnership, County Suite, Hotel Norwich, Boundary Road, Norwich, 11.30
Protean, 135 Bishopsgate, EC., 12.00
Seton Healthcare, Periquito Hotel, Manchester Street, Oldham, 11.00
Thorn EMI, Marriott Hotel, Duke Street, Grosvenor Square, W., 11.30
BOARD MEETINGS:
Interims:
Alexanders Hldgs.
Greenfriar Inv.
Sycamore

Company meetings are annual general meetings unless otherwise stated.

Please note: Reports and accounts are not normally available until approximately six weeks after the board meeting to approve the preliminary results.

DIVIDEND & INTEREST PAYMENTS

■ TODAY
Apollo Metals 1.2p
Austr. & New Zealand Bkg. A$0.1
Brown & Jackson 0.1p
Caisse Francaise de Dev. 12¼% Gtd. Ln. 2013 £308.25
CNA Gallo R0.54
Conversion 9% Ln 2011 £4.5
Do. 9½% Ln. 2001 £4.75
Daicel Chem. Inds. 6.1% Bds. 1997 Y610000
E.I. Du Pont de Nemours 12¾% Nts. 1994 Lira247500
Guinness Fin. BV 8% Gtd. Nts. 1994 $80
Jackson 1.5p
Land Securities 16.55p
Lasmo 9¾% Bds. 1998 $85
Do. 10% Nts. 1994 $100
Lucas Inds. 10⅞% Bds. 2020 £1087.5
Mitsui Fxd. & Flg. Rate Nts. 1996 Y580000
Northern Indl Improvement Tst 9p
Pacific Dunlop 7% Sub. Cnv. Bds. 1996 $70
Polyphand (CP) (Bermuda Reg.) $0.00788
Do. (Hong Kong Reg.) $0.06
Do. (UK Reg.) $0.00788
Read Publishing (USA) 9% Gtd. Bds. 1996 $900
Riverview Rubber Ests. M$0.15
Severn Trent 11½% Bds 1999 £575
Smart (J) 2.3p
Standard Chartered Und. Prim. Cap. Flg. Rate Nts. $317.53
Do. Und. Prim. Cap. Flg. Rate Nts. (Sers. 4) $187.69
Warner Estate 3.65p

■ TOMORROW
Bradford & Bingley Bldg. Soc. Flg. Rate Nts. 1997 £149.51
Do. Flg. Rate Nts. 1998 £151.15
Britannia Bldg. Soc. £149.59
Commonwealth Bank of Australia Und. Flg. Rate Nts. (Exch. into dtd. Flg. Rate Nts.) (Feb 1989 Iss.) $186.66
Marine Midland Fin. NV Gtd. Flg. Rate Nts. 1994 $13.27
MBE Finance NV Sers. A Gtd. Dual Basis Bds. 2001 $208.91
Do. Sers. B Gtd. Dual Basis Bds. 2001 $204.88
Natl. Westminster Bank Prim. Cap. Flg. Rate Nts. Sers. A $188.54
Tiger Oats 5½% Prf. R0.055
Unitas Var. Rate Sub. Nts. 2000 $94.78
Young & Co's Brew. NV 7.5p

■ WEDNESDAY JULY 14
BZW Convertible Inv Tst 1.5p
Finsbury Trust 2p
Do. A NV 2p
Funding 3½% 1999/2004 £1.75
Great Portland Ests. 6.6p
Harrisons & Crosfield 7½% Sub. Cnv. Bds. 2003 £75
Hewden-Stuart 2.365p
Treasury 12½% Ln. 1993 £6.25
Do. 13¼% 2000 £6.5

■ THURSDAY JULY 15
Agricultural Credit Corp. 9% 2001 IR£4.5
Agricultural Mortgage Corp. 5½% Deb. 1993/95 £2.75
Do. 6¼% Deb. 1992/94 £3.125
Albany Inv. Tst. 2.75p
Amer. Medical Intl. 9¾% Uns. Ln. 2011 £4.9375
Bank of Scotland 2.8p
Barclays Bank 12% Uns. Cap. Ln. 2010 £6
Barcom 1.25p
Bradford & Bingley Bldg. Soc. Flg. Rate Nts. 1999 £152.71
Carnaud Metalbox 5¼% Bds. 1993 $51.25
Chrysler Corp. $0.15
Churchbury Ests. 4.2% Prf. 2.1p
Deras Ests. 10¼% 1st Mtg. Deb. 2012 £5.125
Drayton English & Intl. Tst. 0.8p
Edinburgh Inv. Tst. 3¾% Deb. 1998 £1.875
Finley (James) 2.15p
Fisher (Albert) 1.85p
Govett Strategic Inv. Tst. 10¼% Deb. 2016 £5.1875
Halifax Bldg. Soc. Flg. Rate Nts. 1995 £152.71
Helical Bar 5¼% Cnv. Red. Prf. 2012 2.625p
Henderson Admin. 28.5p
Intl. Business Comms. Uns. Sub. Deb. 1996 £2
Republic of Ireland 9% Gov. Bds. 2001 IR£4.5
Lasmo 9⅝% Red. Prf. 1998 4.8125p
McKechnie 5p
Morgan (JP) $0.8
Murray Intl. Tst. 3.9% Prf. 1.95p
North Surrey Water 4% Deb. £2
Do. 4¼% Deb. £2.125
Do. 5¼% Deb. £2.625
Occidental Petroleum $0.25
Oriel 3p
Pacific Gas & Electric $0.47
Perkins Foods Cnv Red Prf 4p
Prudential Fdg. Corp. 8¾% Nts. 1994 $87.5
Quaker Oats $0.48
Quebec Central Railway £2.5
Ross 0.45p
Royal Tst. Gov. Securities Fd. Inc. Ptg. Red. Prf. 1.1p
Horace Small Apparel 2p
SmithKline Beecham A 2.533p
SmithKline Beecham/SmKline Beckman Equity Units $0.04898
SmithKline Beecham/SmKline Beckman ADR $0.2448
Stratagem 1.5p
Kingdom of Sweden 11% Ln. 2012 £550
Treasury 9½% Ln. 1999 £4.75
Witan Inv. 3.4% Prf. 1.7p

■ FRIDAY JULY 16
Abtrust New European Inv 0.3p
Anglo & O'seas Tst. 4½% (3.15% net) Prf. 1.575p
Avon Rubber 5p
Barlow Rand R0.54
Body Shop Intl. 1.02p
BPM Amer. Inc. 9¼% Gtd. Nts. 1999 $92.5
British Inv. Tst. 2.8p
Callyns 6.5p
Craig & Rose 12.5p
Daily Mail & Genl. Tst. 36p
Do. A NV 36p
Devenish (JA) 1.625p
East Surrey Hldgs. 7.36p
Echlin $0.175
Euro. Inv Bk 9% Ln. 2001 £225
Evered Bardon 1.2p
Jos Hldgs. 2.875p
Kelsey Inds. 3p
McLeod Russel 2.75p
Motorola $0.11
Natl. Westminster Bank Prf. Sers. A $0.532
RIT Cap. Partners 1.15p
Sidlaw 4.25p
Spandex 4.8p
Suzuki Motor Corp. 5% Bds. 1998 Y500000
Tiger Oats R0.28
United Drug IR2.2p
Treasury 8½% Ln 2007 £4.25
Westbury 3.25p
Wheeson 2.3p
Young (H.) Hldgs. 2p

■ SATURDAY JULY 17
Treasury 2½% IL 2024 £1.7679

PARLIAMENTARY DIARY

■ TODAY
Commons: Questions to National Heritage ministers, Attorney General and the Overseas Development Administration. Finance Bill, report. International Development Association (Tenth Replenishment) Order.
Lords: Road Traffic (Driving Instruction by Disabled Persons) Bill, committee. European Communities (Amendment) Bill, report. Food Protection (Emergency Prohibitions) (Paralytic Shellfish Poisoning) orders. Criminal Justice (International Cooperation) Act (Enforcement of Overseas Forfeiture Orders) (Scotland) Amendment Order. Confiscation of the Proceeds of Drug Trafficking (Designated Countries and Territories) (Scotland) Amendment Order.
Select committees: Defence. Subject: The Dockyards. Witnesses: Mr Malcolm Rifkind, defence secretary, and Ministry of Defence Officials. 4.15pm.
Information. Subject: Parliamentary data and video network. Witnesses: Mr Jim Rodda, director of finance and administration, Mr Richard Morgan, computer officer, and Mr Andy Makepeace, parliamentary works directorate. 5pm.
■ TUESDAY
Commons: Education questions. 3.15pm questions to the prime minister. Finance Bill, remaining stages. Education (Assisted Places) (Amendment) Regulations. Partnerships and Unlimited Companies (Accounts) Regulations.
Lords: European Communities (Amendment) Bill, report. Noise and Statutory Nuisance Bill, second reading.
Select committees: National Heritage. Subject: the future of the BBC. Witnesses: BBC finance and information technology; BBC network television. 10.30am.
Treasury and Civil service. Subject: the role of the civil service. Witness: Mr Stephen Dorrell, financial secretary to the Treasury. 11am. Opposed Bill Committee. British Waterways Bill [Lords]
■ WEDNESDAY
Commons: Foreign Office questions. Debates opened by Opposition on Scottish local government and water and debt and trade development after G7 summit.
Lords: European Communities (Amendment) Bill, report.
Select committees: Environment. Subject: Energy efficiency in buildings. Witnesses: AH Emstar, Energy Systems Trade Association. 9.15am.
Parliamentary commissioner for administration. Subject: powers, work and jurisdiction of the Ombudsman. Witness: Mr William Waldegrave, chancellor of the Duchy of Lancaster. 10.15am.
Foreign Affairs. Subject: relations between the UK and China. Witness: Mr Alastair Goodlad, foreign office minister. 10.30am.
Trade and Industry. Subject: competitiveness of UK manufacturing industry. Witnesses: officials from the competitiveness unit of DTI; Professor Voss and Mr P Hanson. 10.30am.
Employment. Subject: the work of the Commission for Racial Equality. Witness: Mr Herman Ouseley, chairman of Commission for Racial Equality. 4.15pm.
Health. Subject: London's health service. Witnesses: London Implementation Group. 4.15pm.
Parliamentary Commissioner for administration. Subject: the powers, work and jurisdiction of the Ombudsman. Witness: Mr William Reid, parliamentary commissioner for administration. 4.15pm.
Treasury and civil service. Subject: the role of the Bank of England. Witnesses: Lord Young of Graffham and Mr Peter Morgan, director general, Institute of Directors. 4.15pm.
European legislation. Subject: fisheries. Witnesses: Mr Michael Jack, Agriculture minister and Sir Hector Monro, Scottish Office minister. 4.30pm.
Home affairs. Subject: Racial attacks and harassment. Witness: Mr Peter Lloyd, home office minister. 4.45pm.
Science and technology. Subject: the routes through which the science base is translated into innovative and competitive technology. Witnesses: to be confirmed. 4.45pm.
■ THURSDAY
Commons: Treasury questions. 3.15pm questions to the prime minister. Welsh Language Bill, remaining stages. Appropriation (Northern Ireland) Order.
Lords: Crofters (Scotland) Bill, third reading. Scottish Land Court Bill, third reading. Railways Bill, committee. Sexual Offences Bill, third reading. British Nationality (Hong Kong) (Selection Scheme) (Amendment) Order. Hong Kong (British Nationality) (Amendment) Order.
Select committees: Opposed bill committee. British Waterways Bill [Lords] 10.30am. Crossrail 11am.
■ FRIDAY
Commons: Debate on tackling fraud and abuse in social security.
Lords: Health Service Commissioners Bill, committee. Probation Service Bill, committee. Pension Schemes Bill, committee. Pension Schemes (N Ireland) Bill, committee. Road Traffic (Driving Instruction by Disabled Persons) Bill, third reading. National Lottery Bill, report. Incumbents (Vacation of Benefices) (Amendment) Measure.

LEGAL NOTICES

LONGSTAFF AND SHAW HOLDINGS LIMITED
Company No: 2058486
LONGSTAFF AND SHAW LIMITED
Company No: 535938
LONGSTAFF AND SHAW ENGINEERING LIMITED
Company No: 1989010
LONGSTAFF AND SHAW SERVICES LIMITED
Company No: 1046811
L&S
FIRE PROTECTION SYSTEMS LIMITED
Company No: 1046810
(ALL IN RECEIVERSHIP AND LIQUIDATION)

NOTICE IS GIVEN, pursuant to Section 105 of the Insolvency Act 1986 that a General Meeting of Members and Creditors of the above named company will be held at the offices of Cork Gully, Plumtree Court, London, EC4A 4HT, on 29 July 1993 at 10.00 am and 10.15 am respectively for the purposes of receiving an account of the liquidators' acts and dealings and of the conduct of the winding up to date.
A R Stanway
Joint Liquidator

NOTICE OF APPOINTMENT OF ADMINISTRATIVE RECEIVERS
CHARLES ROSS LIMITED
Registered No: 125513
Trade classification: 23. Trading name: Ross Steel Services. Joint Administrative Receivers: David John Stokes and Michael Joseph Moore, Coopers & Lybrand, 1 East Parade, Sheffield, S1 2ET. Office holder numbers 2682 and 5562. Date of appointment: 1 July 1993. Name of appointer: National Westminster Bank PLC.
Signed D J Stokes
Date: 5 July 1993.

SEOUL INTERNATIONAL TRUST

International Depositary Receipts evidencing Beneficial Certificates representing 1000 units

Issued by

Morgan Guaranty Trust Company of New York

Notice is hereby given to the Unitholders that Seoul International Trust will declare on August 1st, 1993 a distribution of Won 372,000 per IDR of 1000 units in the Republic of Korea.

Coupon No. 9 of the International Depositary Receipts of Seoul International Trust and Seoul International Trust Resold is payable from August 13, 1993 in US dollars at one of the following offices of Morgan Guaranty Trust Company of New York:

Brussels, 35 Avenue des Arts
New York, 60 Wall Street
London, 60 Victoria Embankment
Frankfurt, 44-46 Mainzer Landstrasse
Zurich, 38 Stockerstrasse

The proceeds of the coupons presented will be converted into US dollars at the prevailing spot rate of the day following their presentation, and will be distributed to the Unitholders in proportion to their respective entitlements and after deduction of all taxes and charges of the Depositary.

Holders residing in a country having a double taxation treaty with the Republic of Korea may obtain payment of their coupons at a lower rate of the Korean non-resident withholding tax, on condition they furnish either to the Depositary or through one of the designated sub-paying agents a certificate showing their residence together with a copy of the Certificate of Incorporation or a copy of the passport for individuals. Those documents are requested by the Korean National Tax Administration Office as evidence of residence and without them the full rate of 26.875 pct Korean non-resident withholding tax will be retained.

Depositary: Morgan Guaranty Trust Company of New York
35 Avenue des Arts, 1040 Brussels

EC capital is flying high with airport extension
Page 2

FINANCIAL TIMES SURVEY

BELGIUM

Monday July 12 1993

Green light likely for Europe's first eco-tax
Page 3

As it assumes the presidency of the European Community this month, Belgium is embarked on a course towards a more federalist structure at home. It sees Europe as an anchor for its own political and economic restructuring. **David Gardner** reports.

Euro-devotee calls the tune

Symphony of joyful expectations: Foreign Minister Willy Claes, baton in hand, will try to keep the 12 EC member states playing in unison this year (see page three)

IT IS HARD to imagine any European Community country other than Belgium decreeing a reduction in jail sentences *for convicted prisoners* to mark its assumption this month of the EC's presidency. Idiosyncratic though the gesture seems, it illustrates the importance Belgium attaches to Europe, and to its place in it.

Belgium, always in the vanguard of Euro-federalism and in the throes of settling down to a more federalist structure at *home, takes over* management of the Community after a year which has seen a backlash against the Maastricht treaty on political, economic and monetary union, in a number of European countries.

It intends to set a new tone, banking on ratification of the treaty in the UK and Germany by around September. Mr Jean-Luc Dehaene, *the burly Flem*ish Christian Democrat who heads Belgium's four-party Centre-Left coalition, repeated in several eve-of-presidency interviews that over the next six months he is setting the EC's compass to go "not a step further than Maastricht, but towards all of Maastricht".

Mr Dehaene, is quite likely *to call a special autumn sum*mit after treaty ratification, with Franco-German backing. The intention would be to relaunch the EC: the practical goal would be to agree the rules, management and location for the European Monetary Institute. This is the precursor to the European Central Bank envisaged for later this decade under the plans for economic and monetary union (Emu) which lie at the heart of Maastricht. It must be in place by next January to launch the second stage of Emu.

Mr Dehaene and his colleagues remain convinced of *the need for Maas*tricht and the viability of Emu. They are determined to use their presidency to raise the EC flag from political half-mast, where it has scarcely fluttered *for* the past year, as first the British and then the Danes held the Community presidency.

They see Europe as an anchor for Belgium's own federalism and *as offering* a pretext for re-ordering its economy, especially to put its public finances right. *Mr* Dehaene told the Spanish daily, El Pais, recently that Belgium's European and domestic federalisms "are complementary and indissolubly linked". Yet, Belgian politicians often give the impression *that they believe their linguis*tically fragmented country – divided between French-speak*ing Wallonia, Dutch-speaking* Flanders and polyglot Brussels – can only survive as a nation-state within firm supranational structures provided by growing EC integration.

That is "taking it a step too far," counters Mr Willy Claes, foreign minister and a Flemish Socialist, but he happily *acknowledges that*, "we have always been in favour of transfers of national sovereignty towards a supranational body," and that "there is a link going in the other direction".

Under a seven-party deal in May, Belgium devolved national sovereignty downwards to an extent that will make it one of the most com*pletely federalised states* in the EC after its next elections. The state will retain control of for*eign policy and defence, jus*tice, taxation and social security, but other matters, from the environment to education, and from trade to transport, will be the responsibility of the three regional executives and *their directly elected parlia*ments.

Securing decisions in Bel*gium will then become almost* as arduous as getting the EC 12 to agree, but, local politicians emphasise, they will have a firm consensus underpinning them, and a comfortable EC umbrella above. It will, moreover, by then have an advisory committee of the regions, an arrangement which Belgium is convinced is the embryo of a "Europe des regions".

That is one reason why widespread predictions in May that *Belgium was heading for a* Czech/Slovak-style divorce appear alarmist. A provocative statement at the time by Mr Luc Van den Brande, Christian Democrat chief of the Flemish executive, predicted that federalisation would lead to complete autonomy for Flanders within the decade. Recent opin*ion polls, however, make it* clear that only 6 per cent of Belgians, and even only 9 per cent of Flemings, favour separation. The majority backs a federalist solution.

So-called Belgo-Belge scraps between Dutch and French-speakers are increasingly less melodramatic, partly because of this, partly because politicians from all parties are deeply unpopular – and want to stave off elections as long as *possible – and also* because Belgium has moved into recession.

In the view of leading economists, such as Mr Peter Praet of Generale de Banque, the separatism debate has the merit of focusing attention on Belgium's structural shortcomings, such as its fast-rising *social security bill, in both* Flanders and Wallonia.

The government is struggling against a serious imbalance in public finances, with a budget deficit of 6.9 per cent last year and a government debt overhang equivalent to nearly 125 per cent of national output. Excluding interest on the debt, the budget is in surplus. The government is poised to stem part of the interest payment haemorrhage by refi*nancing short-term foreign bor*rowings into long-term debt denominated in Belgian francs.

*That should produce a size*able reward – perhaps a 1.5 percentage points of gross domestic product saving on the interest bill – for its three-year old *franc fort* policy of tying the franc to the D-Mark.

Convinced it can reach the 3 per cent of GDP target budget deficit for Emu laid down by *Maastricht, Mr Dehaene* pushed through a BFr110bn tax and cuts package in March, at the cost of the near-collapse of his government. The government also expects BFr25bn this year and next from a four-year privatisation drive which is expected to net BFr70bn. This will put up for sale assets ranging from the CGER/ASLK *banking and insurance group*, to Belgacom, the state telecommunications company.

Though Belgium is *as* much out of step with the Emu criteria as the UK, Italy or Spain, the Belgian franc became a refuge currency, in the currency *mayhem of last autumn, and* did not have to leave the exchange rate mechanism, the EC's currency grid, or devalue. This was a tribute to the credibility of its monetary policy, and Belgium's perceived status as part of the hard core EC currency zone, encompassing Germany, France and the Benelux countries.

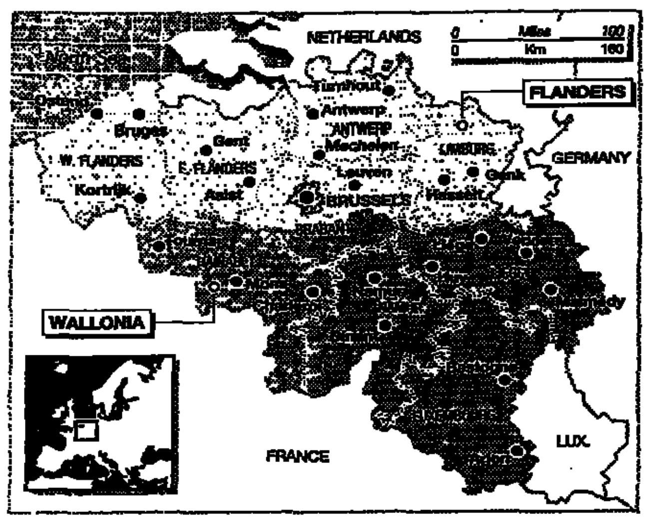
With other partners gaining competitive advantage through devaluation, Belgium has to stay *within this* hard core, *to* which it sells three fifths of its exports, but it is failing to bear down on indexed and inflationary wage settlements which are blunting its competitive edge. It has opted instead to use revenue from new taxes on non-industrial fuel users to cut employers' social security payments in the exports sector. This will not be enough, however, to close a widening wage gap with its main partners.

In Belgium, these strains strengthen the attraction of Emu's goal of a single cur*rency, and even of an earlier* locking of parities between the hard core countries, once *Maas*tricht is ratified. The latter idea, canvassed by Euro-federalists, is that a *fuite en avant* by the stronger economies would establish a target at which weaker partners could aim later.

"I'm in favour of that," says Mr Alfons Verplaetse, the respected governor of Belgium's central bank, "but I don't think it will happen. This recession could be longer than we think."

*Mr Praet says locking pari*ties would be dangerous while there was uncertainty about what was going to happen in a year's time in Germany. "When growth resumes, maybe we can try something more audacious," he adds.

But the longer-term goal of full EC monetary union still looks like a haven to Belgium. As Mr Claes expresses it: "When there are monetary changes in Washington we feel *it across the European conti*nent. Are we still not ready to face up to the lessons of the *monetary instability of last* year, which not one member state was able to resist by itself?"



KEY FACTS		
Area 30,520 sq km	Population	9.98m (1992 est)
Head of state: King Baudouin	Currency	Belgian franc
Average exchange rate		1991 \$1 = BFr34.15
		1992 \$1 = BFr32.15

ECONOMY	1992	Latest*
Total GDP (\$bn)	218.7	n.a.
Real GDP growth (%)	0.8	0.0
Consumer prices (% chng pa)	2.4	2.4
Unemployment (% of lab force)	11.3	12.1
Benchmark bond yield (% pa, avg)	8.63	7.04
Public debt as % of GDP (year end)	121.0	n.a.
Current account balance (\$bn)	4.7	n.a.
Trade balance (\$bn)	–2.5	n.a.
Main trading partners (1992, % by value)	Exports	Imports
Germany	23.0	23.9
France	19.1	16.3
Netherlands	13.8	17.4
EC	75.3	73.6

Trade figures refer to Belgium-Luxembourg Economic Union; * 1993 figures (GDP growth – year forecast; CPI, unemployment – June; bond yield - 5/7/93) Source: IMF, World Bank, Datastream, EIU

Economy hit hard by general EC climate, says **David Gardner**

Export fall fuels recession

BELGIUM'S high productivity and export-oriented economy is suffering from recession among its partners, a sharp downturn at home, and the unsustainable expense of a huge government debt equivalent to about 125 per cent of its national output.

Yet it is also well positioned to reap rewards from its *franc fort* policy, linking the Belgian franc to the D-Mark. This tie, tenaciously maintained for the past three years, makes the Belgian government even more determined to link up in monetary union with its neighbours, especially after the European currency chaos of last autumn.

From 1988, Belgium enjoyed three years of high, non-inflationary growth, peak private investment and good corporate profitability, along with big increases in disposable income. But the more than 4 per cent of gross domestic product average growth of 1988-90 slowed to 1.9 per cent in 1991 and just 0.8 per cent last year. This year is likely to see a contraction of about 0.7 per cent, and only a slow pick-up of around 1 per cent of GDP is foreseen for 1994.

At home, demand has fallen; new car registrations for the first three months of this year, for instance, were down 19.4 per cent on the same period last year. But this is more due to the general climate of EC-wide recession and rising unemployment. In Belgium, there is no "debt deflation" brake holding back a rise in consumption as there is in the UK and Scandinavia. On the contrary, the size and rate of household and corporate savings is high.

The determining factor in Belgium's recession is the slowdown in its export markets. Its exports are equivalent to about two thirds of its GDP, and nearly two thirds of its sales abroad are to its neighbours in Germany, France and the Netherlands, all in recession. In addition, Belgium's relative dependence on what it earns in the international marketplace is far greater than any of these main partners; per capita it exports nearly twice the amount Germany does.

Export success had fuelled high growth, particularly following German reunification. But the extent of German economic contraction has hit Belgium hard. Germany "delayed the recession for Belgium", says Mr Alfons Verplaetse, the central bank governor.

The poor outlook for exports has led to annual investment growth coming down from more than 15 per cent three years ago to perhaps minus 2 per cent this year. Company bankruptcies in the first six months this year reached a record 3,079, 35 per cent up on the same period in 1991, when the first signs of a slowdown appeared.

Last year also saw the first volume fall in exports since 1975, and a 1.4 per cent drop in foreign sales at current prices. All this has fed through into lost jobs, with unemployment rising from 9.3 per cent in 1991, to an expected 11.9 per cent this year.

With the franc pegged to the D-Mark, a collateral and dangerous problem has been the higher rate of wage increases in Belgium over the past three years, creating a 4 per cent wage gap with its three main trading partners. Belgium is the last EC country (aside from Luxembourg with which it has an economic union) to retain automatic wage indexation, leading over the past three years to nominal wage rises nearly twice the rate of inflation, now at around 2.8 per cent. While wage settlements have generaly been around or below German levels, the OECD reckons that in 1988-1994, Belgian wages will have risen by 38 per cent, against 30 per cent in France, and 28 per cent in the Netherlands.

"The government has been very slow to recognise that problem," says

From 1988, Belgium enjoyed three years of high, non-inflationary growth

Mr Peter Praet, chief economist at Générale de Banque, the leading commercial bank. "It is very clear that in Belgium we have a very deep crisis, in industrial employment, not in services," acknowledges Mr Verplaetse.

A vain attempt to end wage indexation nearly brought Mr Jean-Luc Dehaene's Centre-Left government down in March. Instead, BFr10bn revenue from fuel taxes on non-industrial users are to be mobilised to lighten the high social security charges on employers in the traded goods sector of the economy. This redistribution of the tax burden – the so-called Maribel plan – should close about 40 per cent of the wage gap, according to Mr Verplaetse, provided it can be repeated next year and in 1995.

The other vital ingredients to retain Belgium's competitive edge are wage moderation and a concerted effort to bring the budget deficit and government debt under control.

Recent signs that wage settlements were easing are already looking ephemeral. Most unions at national level had agreed not to seek real wage increases in 1993-94. But subsequent negotiations at sectoral level have secured rises – after inflation which is automatically added in – of between 1.4 and 3.4 per cent in 14 industries.

Moreover, the higher fuel charges in the Maribel plan will also go into the retail price index and therefore back into wages. The plan may not have as much effect as the authorities foresee in closing the wage gap with Belgium's competitors.

Public finances have also suffered some drift. The Dehaene government is vigorously trying to get the deficit under control, through a mix of new taxes and spending cuts. The near collapse of the government in March over a BFr110bn budget-cutting package underlined the political sensitivity of the task.

The turnaround in government finances between 1981 and 1991 was impressive. Spending was cut from 59.6 per cent to 51.7 per cent of GDP, with revenues falling modestly from 46.4 per cent to 45.4 per cent. The deficit was thereby only cut from 13.3 per cent of GDP to 6.3 per cent. The balance of the budget after interest paid on debt is taken out, however, moved from a deficit of 5.5 per cent to a "surplus" of 4.1 per cent. Nevertheless, the deficit with interest crept up to 6.9 per cent last year – well wide of the 3 per cent target set by the Maastricht treaty for 1996 for member states such as Belgium determined to be in the first wave of European economic and monetary union (Emu).

Yet in the coming months the government can call in short-term debt, and refinance it long term, and in Belgian francs. "I hope we will see in '94 the real reward for the strong franc policy," says Mr Praet, who foresees a saving on the government's interest bill equivalent to 1 to 1.5 per cent of GDP.

If interest rates in Germany, and therefore Belgium, ease down further, Belgium should be on target for a deficit of around 5.3-5.5 per cent of GDP next year.

The authorities have little doubt that they can and must make it into the first wave of Emu. They point out that the franc became a refuge currency during last September's chaos in the exchange rate mechanism of the European Monetary System – with short-term inflows of BFr122bn, or 1.7 per cent of GDP.

Speculators, they said, ignored the fact that Belgium's current account has had a surplus of around 2 per cent of GDP since 1985, and that in spite of the deficit in its public finances, it is a net creditor country through its high private savings. The brief rise in domestic interest rates during the March budget cuts and wage indexation crisis was quickly reversed.

In the future, however, the franc could still come under pressure if wage indexation continues to erode Belgian competitiveness.

Hilary Clarke discusses legislation designed to protect the environment

Green light likely for eco-tax

BELGIUM is set to become the first European country to introduce a green tax to force consumers to switch to products that have a less damaging effect on the environment. The so-called eco-tax, at present being debated in the Belgian upper house, has put the government of Prime Minister Jean-Luc Dehaene at odds with a range of different industries from plastics and chemicals to French mineral water producers. If, as seems likely, the tax is agreed by the senate, it will become operational next year.

The eco-tax was born out of Belgium's constitutional reforms, the bulk of which were agreed last February. To obtain a necessary two-thirds majority in parliament for its sweeping constitutional changes which will federalise the country, the government needed the support of opposition Flemish Agalev and French-speaking Ecolo parties. The ecologists, who between them have 18 members of parliament, seized the opportunity and said they would back the government's plans only if it agreed to the eco-tax.

Industry claims the eco-tax will put up new barriers to trade and is out of step with environmental legislation designed to cut domestic packaging waste in the European Community. Belgium's trade unions, which originally backed the tax, have now joined the employers' protest because they fear it could result in huge job losses.

The experimental tax will be applied to a selected group of consumer items including disposable cameras and razors, paper with less than a certain amount of recycled fibre and domestic chemical products such as weed killers, pesticides and glue. Beer and wine bottles, soft drink cans and water bottles will also be taxed a maximum of 15 francs a litre. Batteries and throw-away razors will have a levy of 10 and 20 francs respectively.

Leading the battle against the tax are the plastics and chemicals industries. PVC bottles are the only product which will automatically be taxed the maximum 15 francs a litre in a bid to gradually abolish PVC production altogether. "PVC is the most recycled material in Belgium today. It is clear there is a prima facie discrimination against PVC," said Jean-Marie Chandelle, head of corporation communications with Belgium's largest PVC manufacturer, Solvay.

French water manufacturers have joined the Belgian plastic industry in their protest as the majority of plastic-bottled water in Belgium is imported from France. The French government has lodged an official complaint against the tax with the Belgium authorities. For its part, the plastics industry has complained to the European Commission that the tax discriminates against PVC.

But the tax has also angered a broad range of Belgian industry. "We are not against the principle of imposing a levy on a product to correct damage done to the environment, but we are against an arbitrary and general taxation the proceeds of which will not be used for cleaning up the damage the product has done," said Georges Jacobs, head of the Belgian Industry Federation. Belgium's eco-tax differs from packaging waste schemes already introduced in other EC countries because it will be high enough to change consumer habits and influence distributors' choice in packaging, rather than raising revenue for waste management investment.

Environment has been the responsibility of Belgium's regional governments since 1980. Revenue from the eco-tax will be distributed to the Brussels, Flanders and Walloon authorities who will have control over its spending. The Belgian employers' organisa-

Leading the battle against the tax are the plastics and chemical industries

tion says there is no guarantee that money raised, an estimated BFr22.5bn on plastic bottles alone, is used for waste management and environment corrective projects. Doubts have also been raised over how the tax will be collected, although the Greens say the additional administration will be worth it because of the knowledge to be gained on consumer behaviour with regard to the environment.

Following the outcry from industry against the proposals, it was agreed to establish a follow-up commission to examine the impact of the tax, part of a last-minute trade-off between the government and the Greens during their negotiations over the eco-tax. The government-appointed body will have considerable power to modify the law, including waiting until June 1994 before setting final tax levels.

Resigned to the fact that the eco-tax will be introduced in Belgium in some form or other, Belgian packaging users, manufacturers and raw material producers are developing their own alternative packaging waste reduction programme, Fost-Plus, which will be based on Germany's Dual-System scheme. Under the Fost-Plus plans, distributors will pay a levy into a government fund which will be pumped back into industry-run waste management schemes. Industry hopes to persuade the Greens to adopt this system.

Whether the ecologists can be persuaded to do this is uncertain. "An essential element of green thinking is product policy, not just the production process. What's the point of a clean factory that makes polluting products?" asks Agalev member Chris Vermeeren, who helped draft the eco-tax legislation.

Industry's other plan of attack is via the European Community. "We hope the European Commission will at least object to the discriminatory clause against PVC," said Nancy Rusotto of the Association of Plastic Manufacturers in Europe.

Dick Leonard discusses the constitutional reforms

Fashioning federalism

IT TOOK 30 years of campaigning and the painful assembling of a seven-party agreement to obtain the necessary two-thirds majority, but in May the Belgian parliament approved the final steps to turn the country into a federal state. From now on the national government will be confined to carefully delineated powers.

These will be largely restricted to foreign affairs, defence, justice, internal security, taxation and social security. All the remaining responsibilities, including economic affairs, the environment, education, cultural affairs, transport, housing, planning, research, agriculture and foreign trade, will be devolved, or already have been, to three regions (Flanders, Wallonia and Brussels) and three language communities – Dutch, French and German.

It has been a step by step process, starting in 1980 when the regions of Flanders and Wallonia were established. A third self-governing region – for Brussels – was set up in 1987, when education was transferred from the national government to the language communities. The constitutional changes approved in May, which will not take effect until after the next parliamentary elections, are intended to complete the picture.

The changes foreshadow a considerable overhaul of the national parliament, which until now has been an unwieldy and not very influential body, with an almost complete overlap between the powers of the two chambers. Henceforth, the lower house – the Chamber of Representatives – which will be reduced from 212 members to 150, will be the main legislative body.

The Senate, the membership of which drops from 174 to 71, will essentially be a revising chamber. Separate parliaments for Flanders and Wallonia will be directly elected, as the parliament for Brussels has been since 1987. The minister-presidents of the three regions will in future be known as prime ministers. The province of Brabent, the only one which has previously been bilingual, will be split into two, leaving Belgium with five French- and five Dutch-speaking provinces.

The main inspirer of the constitutional changes was Wilfred Martens, who was prime minister almost continuously from 1979 to 1992. Yet it fell to his successor, Jean-Luc Dehaene, also a Flemish Christian Democrat, to steer the main changes through parliament, a tricky exercise as his left-centre coalition fell far short of the necessary two-thirds majority in both houses.

He managed to get the measures through by a judicious mixture of stick and carrot. The stick was applied to the four governing parties – two Christian and two Socialist – who were aware of their unpopularity in the country. A government defeat would have precipitated an early general election.

The carrots were offered to three opposition parties, each of whose support was needed. The support of the two Green parties – one for each of the main language groups – was obtained in return for new ecological taxes. The moderate Flemish Nationalists were won over by the introduction of a clause ensuring that residual powers not specifically mentioned in the constitution should revert to the regions.

Will the new changes stick or do they merely mark a stage in a process leading inevitably to separation, as in the case of Czechoslovakia? There are some warning signs, notably the press interview given in May by the Flemish minister-president, Luc Van den Brande. He foreshadowed a much more complete autonomy for Flanders, setting a target date of 2002.

Mr Van den Brande is a member of Dehaene's own party, and his interview, which was applauded by the bulk of the Flemish press, was embarrassing to the government. Yet the excitement soon died down, and a spontaneous march in Brussels a few weeks later, in opposition to separatism, drew a vast crowd.

David Gardner watches the government tune up for the EC presidency

Symphony of joyful expectations

WILLY CLAES, the Belgian foreign minister, brings a rare skill to his presidency of the European Community's Council of Ministers, which Belgium took over at the beginning of July for six months. He is a conductor of some repute.

He took up his orchestral baton at an eve-of-presidency concert, kicking off the Belgian mandate by conducting a rendition of Beethoven's Ode to Joy, the anthem of the EC. He will no doubt be hoping for its joyful reverberations over the next six months, as he tries to keep the 12 member states in unison at a fractious and difficult time in the community's development.

The Belgians are thoroughgoing federalists, at home and on the larger stage of Europe, where they have always been in the vanguard of the "ever closer union" to which the Maastricht treaty commits the Community. But they take over the EC's rotating management in the wake of two Euro-sceptical presidencies run by the UK and Denmark, which were strongly marked by these countries' difficulties in obtaining national assent to Maastricht. The Belgian presidency's unofficial slogan, reiterated in recent interviews by prime minister Jean-Luc Dehaene, is "nothing more, but nothing less" than the full application of the European Union treaty.

That majority of member states in favour of greater European integration are looking expectantly to Belgium to relaunch the Europe of Maastricht and propel it towards what have recently seemed ever more distant goals of monetary and political union.

Amid a flurry of pre-presidency surmise on how Belgium would try to tilt the EC balance back towards federalism, the government has dismissed suggestions that it will seek an early revision of the strict fiscal and monetary convergence criteria for economic and monetary union (Emu), and flatly denied that it will push for federalist reforms of EC decision-making ahead of the constitutional review foreseen by Maastricht for 1996.

By then, up to four new member states should be inside the EC, if enough Austrians, Swedes, Finns and Norwegians can be persuaded by their governments that this is worthwhile. Most of the crunch points in the negotiations with the applicant countries will be reached on Belgium's watch – and it will be judged in large part on how it handles them.

More streamlined decision-making, implying less room for national vetoes, is seen as the inevitable consequence of the EC enlarging to take in new members. But the present accession negotiations are supposed to get the applicants in by January 1995 – last month's EC summit in Copenhagen decided – with only minor adjustments to EC decision-making.

Mr Claes told the FT it would be "logical, democratic and fair play" to wait until the new members were in before discussing more far-reaching reforms. But he added that the goal of the Community "is not an economic one but a political one. We need an open debate and a sincere debate in Scandinavia and in Austria on this target". "Maastricht," he emphasises firmly, "is not an ending point."

That majority of member states in favour of greater European integration are looking expectantly to Belgium to relaunch the Europe of Maastricht

But Mr Claes, a Flemish Socialist in Mr Dehaene's Christian Democrat-dominated coalition, says his priorities are to speed up the EC enlargement talks, the fight against recession and unemployment, and implementing the Maastricht treaty, which should become fully ratified – Belgium hopes – by September at the latest.

He is seeking to lay modest but solid foundations for the two new "pillars" in Maastricht: agreement on two to three areas of its Common Foreign and Security Policy, and the embryo of a common stance on emigration and asylum policy as part of the "third pillar" of co-operation in justice and home affairs. "I should think that is more than enough for six months," he says with sobriety but clear relish.

EC federalists have been chastened by the backlash against the Community and the speed of European integration set off by Denmark's initial rejection of Maastricht just over a year ago. But it is, in any case, fair to say that EC partners who do not share its longer-term ambitions had always expected Belgium to run a pragmatic presidency.

"You can take it from me," says a senior British official intimately involved in the UK's presidency last year, "that they will be completely fair; unlike us, there will be no spin on the ball."

"It is not wise to exaggerate the possibilities and power of a presidency," Mr Claes says. "We know you need consensus to make progress, and that we are just the go-betweens." But while it is only natural after a year of EC drift for Belgium to discourage high expectations, its presidency faces a series of challenges going beyond its stated priorities.

■ Money. Its first task will be to preside over the share-out of Ecu157bn in EC regional and structural development spending for 1994-99, when all its partners except tiny, rich Luxembourg are unhappy with Commission plans for spending it.

■ Gatt. The Uruguay Round world trade reform talks will come to a head under the Belgian presidency. Belgium will have to contain growing tensions between France and its partners over the EC's stance, at a time when the Belgian government is increasingly sympathetic to the Paris hard line on farm trade. Mr Dehaene called last November's EC-US breakthrough on cutting farm subsidies "a tactical blunder" in a recent interview, saying it had to be "corrected".

■ EC monetary policy. It falls to Belgium to kick-start the second phase of Emu, due to start in January with the creation of the European Monetary Institute, precursor of the European Central Bank foreseen at the third stage later in the decade. The presidency will have to arbitrate amid continuing tensions arising from high German interest rates. It will also have to resolve the competition to host the EMI/ECB, as part of a complex package locating other EC institutions.

■ Bosnia. The EC's increasingly bad conscience about not doing enough to resolve the Bosnian conflict led Chancellor Helmut Kohl of Germany to champion lifting the arms embargo on ex-Yugoslavia to allow the Bosnian Moslems to defend themselves. At Copenhagen, the EC instead said it would send more troops to defend the Moslem "safe areas". Mr Dehaene has acknowledged that if not enough troops are sent, the embargo issue will come back.

Beyond this lies a minefield of more mainstream EC business and concerns. On the environment, for instance, the Belgian presidency will have to arbitrate in the increasingly ill-tempered row over German waste exports for recycling, partly by pushing hard to get the stalled EC directive on packaging waste through. Having introduced its own eco-taxes (green tax) Belgium is also committed to the planned EC energy tax to combat global warming. But Britain is flatly opposed to this.

The Belgians will be scrutinised closely, too, to see how well they conform to the EC's new pledge to be more open in its decision-making.

Andrew Hill looks at plans to modernise Brussels' airport

Capital of EC is flying high

BRUSSELS has a state-of-the-art airport. Unfortunately for the thousands of businesspeople and politicians who use it, the art is late-1950s.

Between 1958, when the terminal buildings were built for the World's Fair, and 1988, no substantial work was done on the site, apart from the construction of a small satellite terminal in the late 1970s.

But over the same period the city of Brussels has become the institutional capital of the European Community and a magnet for international business travellers and politicians. For these customers – who represent two-thirds of the 9m or so passengers using the airport annually – the 1958 terminal is a disappointment: cramped, shabby, and slow.

Perhaps Brussels airport's only advantage over its competitors is its proximity to the city centre. It can take only 15 minutes to travel by car from central Brussels to the north-eastern suburb of Zaventem where the airport is built – but that is more a geographical stroke of luck than a triumph of airport management, and it is let down by an out-of-date "City Express" train link.

Professor Pierre Klees, chief operating officer of the Brussels Airport Terminal Company since January, admits that the airport's owners – a combination of the Belgian state and private investors, including the country's largest holding companies – should have done more to keep the principal airport of the self-styled capital of Europe up to date.

Now, at last, the long-awaited improvements are being carried out. From the window of Mr Klees's office, the finger of a long, new pier points out towards the runways. Once complete, the extensions should allow Brussels to handle an extra 21m passengers a year – more than tripling the present capacity of 9.3m, to take account of estimated passenger growth forecasts of between 4 and 7 per cent a year.

Posters on the approach road to the airport proclaim a completion date of 1993. In fact, following wrangles with contractors, consultants, the government and the airlines, BATC is now estimating the new terminal, with 23 additional gates, will be open sometime in the second half of 1994. The company says it will set a formal completion date in September.

The building of the new pier – to be followed, eventually, by a second parallel pier linked by a tunnel – is the most obvious element of the work under way, and the one which is creating the most headaches for users of the airport. But BATC is simultaneously hoping to improve the efficiency of the existing terminal so that when the wraps come off the new buildings next year, the entire system will be quicker and easier to use. Automatic signalling systems will guide drivers to spaces in the airport's car parks, for example; a new integrated computer network, linking all airport services in collaboration with the airlines, should speed check-in, border and security controls; and BATC is also trying to persuade Belgian railways to upgrade the airport's rail links with Brussels and Antwerp.

The improvements do not come cheap. BATC announced a net consolidated profit of BFr283m in 1991, after tax, but it has had to raise BFr21bn, several billion francs more than the original estimates for the improvements, through a bond issue, to cover the cost of the new work.

Further cash will be needed to bring the new airport into line with the requirements of the Schengen free-travel agreement, which plans to abolish passport checks for travellers between nine continental EC countries from December 1. BATC will be given longer to carry out the work necessary to segregate intra-European passengers from international passengers, but Professor Klees still estimates the cost at some BFr1bn.

The extensions should mean an extra 21m passengers a year

Despite that, he says there is no way that the airport will rest on its laurels once the improvements have been made. "It's very damaging that we didn't start work like Schiphol [Amsterdam's airport] or Paris 20 years ago. I think all airports should have work in progress every day," he says.

The airport's managers are still cautious about what the future holds. In March, Mr Eric Kirsch, chairman of BATC and chief executive of the state authority which owns 48 per cent of the group's shares, said that the analysis of trends in aircraft movements, passenger and freight traffic in 1992 gave reason for "moderate but definite optimism".

But he also pointed out that Brussels was just one of a cluster of highly competitive airports, all attempting to be the hub of international and intra-European aircraft operations.

Brussels airport is certain to retain its head start over competitors as the only airport serving the EC institutions, not to mention Nato and a host of multinational company headquarters sited around Brussels. But an improvement in Europe's high-speed rail network could draw passengers to other modes of transport, and even entice them to use other hub airports as a way into Europe. That would increase the pressure on the new terminal, and could chip away at BATC's income, based on retail operations (40 per cent), airport taxes and charges for use of pier facilities (60 per cent).

Eurotunnel, operator of the Channel tunnel, claims a combination of high-speed train and tunnel will reduce the journey between Brussels and central London to three and a quarter hours, possibly making the train an attractive alternative to flying for some travellers.

Profile: GUY SPITAELS

Mr Wallonia pulls the strings

Guy Spitaels: opted to be Mr Wallonia

GUY SPITAELS, who led the French-speaking Socialist Party (PS) for 10 years until early last year, can claim to be the most successful leader the party has ever had. He rescued it from a seven-year spell in opposition, and in 1987 boosted its share of the vote in Wallonia to 44 per cent, the highest proportion of any Socialist Party in the EC, as he was quick to point out to any inquirers.

Along the way, he had effectively absorbed the predominantly left-wing separatist Rassemblement Wallon and eliminated the Belgian Communist Party as a parliamentary force, in spite of its very moderate programme. His reward was to be asked to form a government by King Baudouin after the 1987 election, from which his party had emerged as the dominant force, not only in Wallonia but in the national parliament.

It did not take Mr Spitaels long to discover that the Flemish parties would not accept him as prime minister. The ostensible reason was that he could not speak fluent Dutch. Yet Mr Spitaels does not believe that this was the whole story. "Even if I had spoken perfect Dutch", he says, "it would have made no difference. It is not the fact of not being able to speak their language that the Flemish object to, it is that, as the majority group, they feel the job belongs to them."

He is probably right. Each of the last 11 governments has been led by a Fleming, and the few post-war administrations led by French-speakers have been short-lived. Mr Spitaels settled for being the country's chief power broker, staying outside the government as leader of the PS, but being consulted by the then prime minister, Wilfried Martens, on important points. He also chose and effectively controlled the Socialist-led coalitions that rule the Walloon and Brussels regions and the executive of the French-speaking community.

Mr Spitaels, 61, had a strict Catholic upbringing, but lost his faith while studying law and political science at the Catholic University of Louvain. He subsequently became a professor at Brussels University. He joined the PS at the age of 29 and became a full-time politician at 42.

There was general astonishment when, shortly after the last general election, he effectively appointed himself as minister-president of Wallonia. It was, he later said, a move he had long pondered. After 10 years of pulling the strings from outside government it was time, he felt, to assume direct executive authority. Although at an earlier period he had been a vice-premier and budget and communications minister, it was a sign of the times that he should choose to head a regional administration rather than joining the national government.

In the region, as earlier in his party, his easy dominance is universally acknowledged. His intellectual power and shrewd political judgment give him a head-start over all possible rivals. The Flemish parties have publicly lamented that they could find nobody of comparable stature to head the Flemish regional government.

Wallonia is the poorest of the three Belgian regions, but its standard of living is more than 90 per cent of the EC average, and it did not qualify for special assistance from the community. Mr Spitaels's proudest achievement so far has been to squeeze funds out of the EC for the poorest of Wallonia's five provinces, Hainaut.

Mr Spitaels may never have quite made it as Mr Belgium, but nobody now disputes his status as Mr Wallonia.

Dick Leonard

MANAGEMENT

There has been a revolution at Elida Gibbs – from the factory floor to the sales team, writes Guy de Jonquières

A clean break with tradition

IN A business where brands are a company's most cherished assets, abolishing the post of brand manager may not seem a brilliant idea. Yet last October, Elida Gibbs, the UK personal products subsidiary of the Anglo-Dutch Unilever group, did just that. For good measure, it scrapped its sales department, too.

Instead, the company's brands – which include Fabergé Brut, Pears, Signal and Timotei – are now the responsibility of a new breed of executives known as brand development managers, while the former sales team has been re-born as the "customer development process".

The title changes are far more than cosmetic. Behind them lies a drive to shake up traditional methods which has radically transformed the way Elida Gibbs operates, from research laboratory to supermarket shelf. It is, in effect though not in name, a thorough "re-engineering" exercise.

Tony Burgmans, director of Unilever's worldwide personal products business, compares the upheaval with the recent revolution in organisation and working practices which Japanese competition has forced on western industries such as cars.

In common with many manufacturers in those sectors, Elida Gibbs has eagerly embraced concepts such as teamwork, empowerment and total quality. But unlike them, it has been unable to find inspiration from other companies in the same business.

The experience has turned it into a testbed for new techniques within the Unilever group.

The most potent external force for change was not competition from Japan, but pressure from Britain's

"The changes would have been impossible to implement without training – it opened people's minds"

big retailers, through which most of Elida Gibbs' products are sold. By the late 1980s, several felt the company, though still UK market leader, was failing to keep up with the times.

"Two or three years ago, Elida Gibbs' delivery standards were dire and their ordering systems archaic," says Michael Rosen, director of non-foods at J. Sainsbury, Britain's biggest supermarket group. "The whole thing was shambolic. They were nearing the point of losing a lot of business." Now, he says, the company is one of Sainsbury's most efficient suppliers.

The route to recovery began on the factory floor. With backing from Mike Perry, Burgmans' predecessor and now joint chairman of Unilever, Elida Gibbs introduced team-working at its plant at Seacroft, near Leeds in 1988.

Responsibility for each production line has been transferred to those working on it, who are encouraged to co-operate continuously to solve problems and improve efficiency. They are also given fuller information about the company's performance and overall strategy.

Initially, the switch faced scepticism from trades union officials and older middle managers. To win acceptance, the company put its 1,000 employees through three-day courses on total quality, run by teachers selected from the workforce.

"The changes would have been absolutely impossible to implement without training – it opened people's minds," says Jon Riches, personnel director, who has overseen an increase in the company's training budget from 0.5 per cent to 1.3 per cent of sales since the late 1980s. This year, he aims to give every employee 10 days' training.

The new approach has produced some big gains. In the past three years, change-over time on one production line has been reduced to less than four hours, from a day and a half, while annual lost-time accidents at Seacroft have been cut by three quarters.

In parallel, a drive to improve customer service has increased from 72 per cent to more than 90 per cent the proportion of orders correctly completed. In the past year, "right first time" performance at the plant has risen six percentage points to more than 90 per cent.

The bottom line has benefited, too. Between 1989 and 1991, pre-tax profits rose by 73 per cent and margins widened from 6.5 per cent to 10 per cent. Though recession checked the improvement last year, sales grew by 9 per cent. (see table).

But as experience with the new approach grew, managers became aware it needed to go still further. They realised that efforts to boost production efficiency were tackling only one link in a chain which connected every part of the business.

One result was a new policy towards suppliers. In three years, their numbers have been cut by more than a third and they have been given more responsibility for quality control, testing and development. But, the biggest breakthrough has been the recognition that the traditional division of the company into separate functions, such as research or distribution, had become a serious handicap. By compartmentalising management, it was frustrating efforts to speed up innovation and increase flexibility.

Last autumn, management was re-structured into teams and managers' roles re-defined on the basis of core business "processes", such as the supply chain (manufacturing and logistics) and commercial affairs. These "seamless teams", as Burgmans calls them, are intended to involve all parts of the business in decisions at every stage.

According to Helmut Ganser, Elida Gibbs' chairman, the new brand development managers are the linchpins of the system. They are the prime movers behind product innovation and have wide authority to pull together the technical and management resources they need to see projects through.

To enable them to concentrate on the longer-term business of building brands, many of the day-to-day dealings with retailers which absorbed much of the former brand managers' time have been entrusted to the customer development managers. Their priority is to satisfy growing demands from large retailers that suppliers work with them to increase the sales and profits of entire product categories, rather than just push their own brands.

The teams are said already to have broken down barriers and encouraged wider participation across the company. Burgmans says group decision-making has reached the point where "you often don't know who made a suggestion first".

In April, Elida Gibbs launched the first product of the new system. An aerosol deodorant – named Brut Aquatonic – was developed in less than six months, half as long as would have been needed previously.

Burgmans reckons the development time today could be as little as three months. But he stresses the biggest advantage of the reorganisation is that it enables the company to undertake more ambitious projects, rather than just to keep doing the same things more quickly.

Top managers should get a more precise picture of how the reorganisation is working when they review it this week. But the real test of its success will lie in the market – and in the reaction of retailers.

Boots, Britain's largest chemists' chain, says Elida Gibbs now takes a more co-operative attitude towards developing new product markets: "We have a much more satisfactory dialogue than in the past. They now recognise that retailers are far closer to the consumer than they can possibly be."

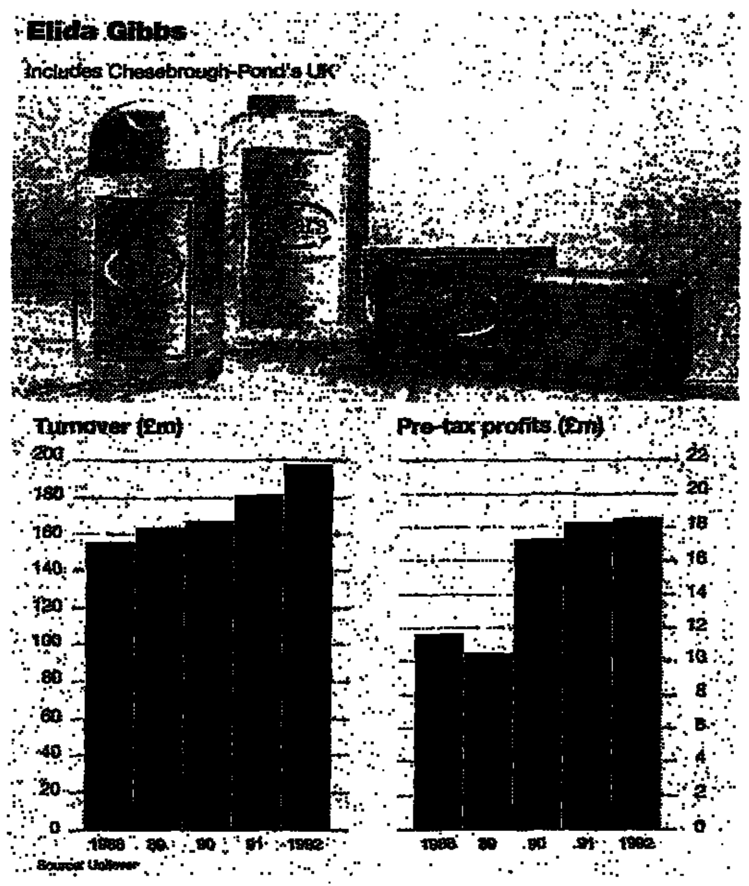
Sainsbury's Michael Rosen praises Elida Gibbs for "great strides" to improve distribution and service, but says its sales are still spread across too many brands, some of which – such as Pears – it has failed to develop fully.

Ganser at least partly accepts the criticism, saying he plans to focus more support behind fewer brands in future.

But the challenges go beyond the UK. As Unilever integrates its European operations, Elida Gibbs will need to work more closely with sister companies on the continent. It already has Europe-wide responsibility for developing deodorants and a growing share of production is for other European markets.

Not surprisingly, Elida Gibbs' managers are keeping an open mind about the results of the reorganisation. Says Riches: "Ask us again at the end of next year. It is still too early to say we have got it right."

Previous articles in the series have appeared on May 24, June 2, 11, 18, 24 and July 5.



Spot the tricks of the trade

It pays to be wary of consultants, says Christopher Lorenz

Have you ever employed a consultant who turned out to be an organ-grinder, a Swiss cheese, or a Mercedes? Did he or she "fake it", use perpetual motion, indulge in role reversal, or employ the "CIA approach"?

You may not know it – even less admit it – but you have almost certainly suffered at the hands of at least one of these phenomena. For they are all variants of the tricks which management consultants have pulled on their clients from time to time.

This information comes courtesy of an insider, Michael Grunberg, managing director of Stoy Hayward Consulting, a medium-sized British firm. Though one of the slickest talkers around, Grunberg denies that he or his firm use such tricks of the trade. But he is not ignorant of them.

At a meeting last month of the Strand Group, an informal association of in-house consultants for large companies in the UK, Grunberg was invited to give an external perspective of the way consultancy work is bought and used. In an otherwise serious presentation about the ways in which different consultancies operate, he threw in two slides which listed "the stunts they pull" (with the emphasis on the "they"). To distance Stoy Hayward further from such practices, he omitted its logo from the slides.

The first list covered the "sales cycle" (selling to clients), and described 13 types of misbehaviour. First came the "organ grinder" – where the team which does the selling is far more high-powered than the one which actually carries out the assignment. As most clients would confirm, this is far from uncommon.

Then there is "smoke and mirrors": a consultancy claims that its proposed approach, or course of action, is "structured, sophisticated and proven", but in fact it has yet to be tested.

Next come "gold-plating" (a methodology or activity which is not essential), and the "trojan horse": a low-cost exercise calculated to "front-end" further work out of the client. Both are more widespread than Grunberg implied.

Leaping a bevy of other intriguing practices, from "surgical bypass" to "barrow boy", one arrives at the Mercedes stunt, where the client receives only the basic model and everything else is extra. In the Swiss cheese, consultants leave deliberate gaps in the work they tender, in order to "facilitate extensions" from the client, as Grunberg put it.

Turning to tricks used when a consultant has bid successfully – by whatever means – and is executing an assignment, Grunberg defined "faking it" as relying on the client's inexperience and lack of knowledge; "perpetual motion" as staying on forever; role reversal as training on-the-job at the client's expense (which is far from uncommon); and the "CIA approach" as Consulting in Absentia – sub-contracting the work to others in covert fashion.

Then there's "hidden talent" (the exaggeration of per diem work); "car service" (the allocation of general overheads as job-specific expenses); and "carbon copy" – using previous client work without adjusting it. This is one of the most regular (mal)practices of all, too many clients have learned to their cost.

Grunberg concluded with a list of tips to clients on how to avoid being taken to the cleaners in these and other ways. They included: know what you want to achieve; write it down; identify the real experts; read their tenders very carefully; evaluate formally and on a range of criteria; and treat consultants as consultants, not "terrorists" and negotiate with them, "especially on the detail of the deliverables". Above all, "manage the consultancy" and measure its success.

Grunberg was too polite to say so, but all that is easier said than done. You may even need a consultant to advise you how to do it.

PEOPLE

Meehan moves to Mothercare

Mothercare, the children's and babywear retailer that is part of the Storehouse group, is replacing its finance director.

Mothercare says Paul Ryan, finance director since joining from Budgens, the supermarket chain, in 1989, has resigned from the group to pursue other interests nearer to his Leicestershire home.

His replacement is Andrew Meehan, 38, who joins from Sears, where he has been finance director of the sports and leisurewear division.

Meehan trained as an accountant with Coopers & Lybrand and spent time at Chase Manhattan and Air Products before joining the Burton Group, where he held senior financial posts in the Top Man, Principles and Burtons chains. He joined Sears in 1987 and was finance director of Selfridges department store before moving to sports and leisurewear.

Mothercare's performance has already started to improve thanks to the reform programme begun by former Storehouse chief executive David Dworkin, and being continued by his appointee Ann Iverson, Mothercare's chief executive, but the programme is less advanced than that at sister chain BHS.Meehan is expected to work closely with Iverson on strategic planning.

Mike Jones, 49, who steps down as chief executive of the Association of British Insurers on August 10, has been appointed to a newly created post of head of corporate affairs at Sun Alliance, the composite insurance company.

Jones, who has worked for insurance trade associations for 25 years, decided to leave the ABI some months ago after it was announced that Mark Boleat, the director-general of the Building Societies Association, was being brought in above Jones' head to be the ABI's first director-general.

GWR boosts its board

Great Western Resources, the UK-quoted oil, gas and coal company which last year suffered an unwelcome torrent of publicity over its flamboyant former chairman Dan Pena, has named two non-executive directors to its already 10-strong board. Donald Clayton and Joseph Reid will be among a team of eight non-executive and four executive directors.

Howard Wolf, the company doctor who replaced Pena as chairman in 1991 following a shareholder rebellion, says the appointments mark GWR's move from "the whisky and society columns to the business pages".

Clayton, 56, is better known to observers as the driving force behind the development of Meridian Oil, owned by Burlington Resources of the US, since 1987. In February, Wall Street was taken aback by Clayton's abrupt and unexplained departure from Burlington, just eight months after being promoted to president of Meridian's parent company.

Reid, an oil and gas consultant in his early 60s, was Clayton's predecessor as chief executive of Meridian Oil. He was also president and chief executive of the natural gas company Superior Oil, taken over by Mobil Oil in 1984.

GWR, which had been in dispute with one of its largest customers, recently came out of Chapter 11, a form of protection from creditors supervised by the courts. The group reported an interim loss of $2.03m in May, against $13.6m the previous year.

■ **Archibald Ramsay** is retiring from NORTH WEST WATER.

Barry Maiden moves over to Queens Moat

Andrew Coppel, who last week took over as chief executive of Queens Moat Houses, has made his first important appointment. Barry Maiden is to become finance director of the UK hotel division.

The appointment comes after Coppel decided that the UK part of the business should be run as a separate company, rather than directed from group headquarters. The UK business, whose shares were suspended last March, is in urgent need of new financial and management controls, Coppel says.

Maiden, 43, was finance director of Hilton UK for three years and before that finance director at Threshers, the drinks retailer.

Imperial Chemical Industries paints division has appointed John Hirst as the first ever chief executive of ICI Autocolour, the world's largest car repair business outside the US. The unit was recently designated by Ronnie Hampel, chief executive, as a core business, indicating that it is an area in which the company plans to achieve world leadership.

Hirst's appointment follows a restructuring of the business. All Autocolour around the world will report to him rather than the regional heads.

Hirst, 40, is a former finance director of ICI Paints' French subsidary who became general manager of ICI Autocolour Europe in 1990. He speaks French, German and Portuguese.

CONSTRUCTION CONTRACTS

Hozelock plant for Birmingham

HOZELOCK has announced plans for a factory in Birmingham.

Work on the 10 acre site is due to start in August and the new manufacturing facility – representing an investment of £8.5m – is expected to be operational by the autumn of 1994.

It will house all the manufacturing and assembly lines for Hozelock's ranges of watering equipment, sprayers, garden electrical and housewares products.

The new plant is expected to provide for the planned expansion of the company into the 21st century. Some 65 new jobs will be created, increasing Hozelock's Birmingham workforce to 550.

The single-storey building will initially afford 175,000 sq ft of factory space and has been designed to facilitate easy expansion up to 235,000 sq ft and for the addition of a mezzanine floor.

"This is a major undertaking which will ensure that we have the facility to increase our manufacturing capacity to support the company s planned growth both in the UK and, particularly, the rest of Europe," said managing director, David Codling.

Situated at Birmingham's showpiece industrial estate, Midpoint Park on the A38 trunk road five miles to the north-east of the city, the new factory is also sited for easy access from the M6 and M42 motorways.

It is also less than a mile from Hozelock's computerised national distribution centre at Minworth which will further speed deliveries of finished products to the retail trade.

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New headquarters in Cardiff

OSPREY PROJECT MANAGEMENT, the project management company of the Franklin & Andrews group, has been appointed by NCM Credit Insurance (formerly ECGD), to project manage its relocation to a new headquarters building in Cardiff.

Osprey's Cardiff office was originally appointed in February 1992 to find suitable development sites for the building. A site was selected within the waterside location of Cardiff Bay.

The headquarters, which will be built by developer Grosvenor Waterside, will cost in the region of £12m, with a further £4m being spent by NCM on the fit-out.

The building, which has been designed by Holder Mathias Alcock, is to be constructed to an unusual and innovative design which will have a nautical look to it.

It will employ an environmentally friendly air-conditioning system which is similar to those used in Scandinavia: it involves displacement ventilation and chilled beams and this is believed to be the first of its type to be used in the UK.

The building will be developed by Grosvenor Waterside to house NCM Credit, who are moving out of the Welsh Office since they became a commercial organisation in November 1991.

Osprey will provide full project management services: quantity surveying services on the fit-out contract will be carried out by Franklin & Andrews. Construction works will commence shortly and completion is set for December 1994 .

University computing facility

The Leeds office of MOWLEM NORTHERN, a division of John Mowlem Construction, has been awarded contracts together worth £8.6m. The largest, worth approximately £4m, is to convert a listed mill into a school of computing and mathematics for the University of Huddersfield.

The nineteenth century mill, a six-storey building which remained in working order until 1988, will be completely stripped and refurbished, together with an adjacent single-storey weaving shed.

Scheduled for completion in August 1994, the refurbishment will preserve the character of the mill by cleaning and exposing original features such as cast iron columns, roof trusses, brick arched floors and solid masonry walls. It will allow students from the school of computing and mathematics to relocate under one roof with new facilities such as computer laboratories, seminar rooms and lecture theatres, including a sunken theatre for 270 people in the weaving shed.

Other work won by Mowlem includes three design and build projects: a £1.2m contract from English Industrial Estates for a factory at Hellaby lane, Rotherham, a £1.5m contract for a two-storey office development which will incorporate Hull Housing Action Trust's new headquarters and a production facility extension for Arco Coatings, both in Hull.

Foundation work for Cementation

CEMENTATION PILING & FOUNDATIONS, part of Trafalgar House Construction, has recently commenced work on new projects valued at £4.3m.

The company has won the enabling works contract for the Royal Mail's Bournemouth mechanised letter office. Work on the site includes constructing 803 driven cast in situ piles to support the main structure and ground improvement using Cementation's patented Cemcol process to create 1,000 stone columns.

In Manchester a Soilmec rig is being used to construct CFA piles to a depth of 12 metres and loadbearing capacity of between 1350kN and 3200kN for an indoor gymnastic arena.

The project is part of the first phase of a £200m redevelopment of the Victoria Station site, as part of the city's bid to host the 2000 Olympic games.

Alfred McAlpine garners orders

ALFRED McALPINE BUILDING has been awarded contracts worth £30m since the end of March.

In the north, the company continues its success in securing stadium redevelopment work with the award of Phase II of Blackburn Rovers Football Club's stadium improvements at Ewood Park, with a value of £4.9m.

Alfred McAlpine Building North is also set to start work on the £5.3m Conway Park Swimming Centre for Wirral Borough Council and has already begun work on a Strathclyde social housing contract worth almost £1m.

The Midlands region has won a £5.4m contract for Safeway to erect a store and petrol filling station in Liskeard, Cornwall. The company has been appointed to carry out the re-roofing of the north stand at Coventry City Football Club, together with construction of a new east stand and associated works worth in excess of £3m.

Alfred McAlpine Building Midlands also commenced work in April on the development and refurbishment of listed buildings in Edgbaston to provide a three-storey office development with a value of £3m. Finally, Alfred McAlpine Management has been awarded a design and build contract for Tesco at New Milton valued at £4.6m.

Architecture/**Colin Amery**

The country house as time machine

Eighteenth century allure: a design for a library interior by Bentley

This is the time of year for the country house visit. International tourists and eager National Trust members are paying to glimpse the especially English ensemble of the great house with its collections and grounds. Throughout the land a quiet procession threads its way through silent rooms - carefully keeping on the right side of the ropes and speaking in awed whispers. How much do we really see on the country house tour, and how much do we really understand about what is spread before us ?

The great moment aesthetically in the English house is the eighteenth century. To assist us with the understanding of this period a valuable new book has been published - *Eighteenth Century Decoration : Design and the Domestic Interior in England* by Charles Saumerez Smith, (Weidenfeld and Nicolson, £50). It is the latest volume in the very comprehensive series that looks at the way interiors are depicted, by collecting together as much contemporary illustrative material as possible. In the case of the eighteenth century there are plenty of architects' drawings, pattern books, paintings and prints that do, when they are analysed, present a clear picture of life indoors at the time. A careful reading of Mr Saumerez Smith's book will open the eyes of visitors to country houses and give them a head start in understanding why the rooms look the way they do and how they were designed for use.

There is relatively little published in this country that is serious on the subject of historic interior decoration. Mr Peter Thornton has done a lot to rectify this and his pioneering book on the seventeenth century interior in England and Holland set a very high standard. He went on to write the badly titled but rewarding book, *Authentic Decor* which updates to an extent the work of the master, Mario Praz, who gave us the gospel of interior decoration and its history. Anyone writing about interior design in the eighteenth century in England has to match the work of John Fowler and John Cornforth who published the key work in 1974 - *English Decoration in the eighteenth century*. Peter Thornton and John Cornforth have tried hard to show that our aesthetic response to eighteenth century rooms may well be a response that is conditioned by the current look of rooms and houses that were all substantially reorganised in 1910.

The author of this important new book uses as his visual sources, paintings, prints and architects' drawings. The book is a rich visual feast but one of those books where the reader is really helped by being taken by the hand by the author and gently guided into new ways of interpreting old visual sources. When Mr Saumerez Smith is confronted by a painting by Zoffany or one of Arthur Devis's wooden compositions, he helps us to see them as documentary sources that reveal a lot about the look of the period. They also reveal a set of social relationships that need to be carefully interpreted.

The author must have found it difficult to select from the quantity of material that exists for the period. He has brilliantly found a great deal of unpublished material, and his commentary also reveals hidden elements in familiar images. He is right to comment upon the growth in importance of the spread of possessions amongst all classes as the eighteenth century progressed. The developing range of manufactured products enabled a wide range of people to see their immediate surroundings as expressions of themselves. The fine arts express this to a degree - especially architecture which began to organise domestic interiors in terms of display.

One of the best sections of this enthralling book for me was the one devoted to the impact of the great architect Robert Adam. Adam's career defines the second half of the eighteenth century. He went on the Grand Tour in the 1750's and met the influential Charles-Louis Clerisseau in Florence from whom he learned how to study the antique and how to draw. This book shows us some of the perfect results of this study at Kedleston, Syon, Kenwood and Home House. Adam understood the complete nature of a room - how to design walls, floor and ceiling as well as the furniture. Johann Zoffany as a leading artist and contemporary of Adam also understood the total domestic realm in his paintings and the examples shown here reveal not just family life but also the totality of the design of rooms and furniture.

The role of the craftsmen and the pattern books of the period is clearly explored in a way that rightly emphasises the importance of the skilled artisan and demonstrates how printed books and engravings helped the spread of stylistic knowledge from France and Italy to London, and from London to the provinces.

Above all this book took me into a world of refinement and taste leavened by satire and the perceptions of Hogarth. I felt by the end that I had lived briefly in the eighteenth century. I admired Mr Saumerez Smith's learning and visual sense and I coveted the architectural wallpaper shown in an interior of 1780 to the extent that I might well consider copying it.

Cheltenham Festival/**Andrew Clements**

Miller's Secret Marriage

The Secret Marriage is the well-made 18th-century opera *par excellence*, which established its own niche in operatic history from the very start when it was encored in its entirety at its first performance. There may be nothing remarkable in Cimarosa's music, especially for a work six years' younger than *The Marriage of Figaro*, or intricate about the development of the plot. But set up its comic mechanism convincingly and the two acts unwind with a succession of surefire jokes and persistent good humour.

Opera North's new production, put before the public for the first time at Cheltenham last Thursday, applies effective enough lubricant to that comic clockwork. The staging is Jonathan Miller's, and marks the beginning of his rehabilitation in British operatic life after more than five years of self-imposed exile since he directed *Candide* for Scottish Opera in 1988. After Cheltenham the show repairs to the Buxton Festival, where it will form one element in a Miller package alongside his production of Donizetti's *Maria Stuarda* that opened in Monte Carlo earlier in the year.

With designs by John Conklin (a tastefully marbled, duck-egg blue interior) and purposeful conducting by Roy Laughlin this *Secret Marriage* makes a pleasant, likeable show.

The concept is straightforward enough; the action is transplanted from 18th-century Bologna back to Regency England, to the world in which Colamn and Garrick set the play from which Cimarosa's libretto was taken.

The opera is sung in very clearly comprehensible English (a new plain translation by Simon Rees, not without some seemingly unintentional *double entendres*); Geronimo takes on a Yorkshire accent you could cut with a knife a self-made man from the burgeoning industrial age if ever you saw one and Count Robinson becomes another dim example of the English aristocracy, doubtlessly inbred. It's a sensible, untroubling piece of theatre, carefully worked out by Miller and perkily rendered by his cast.

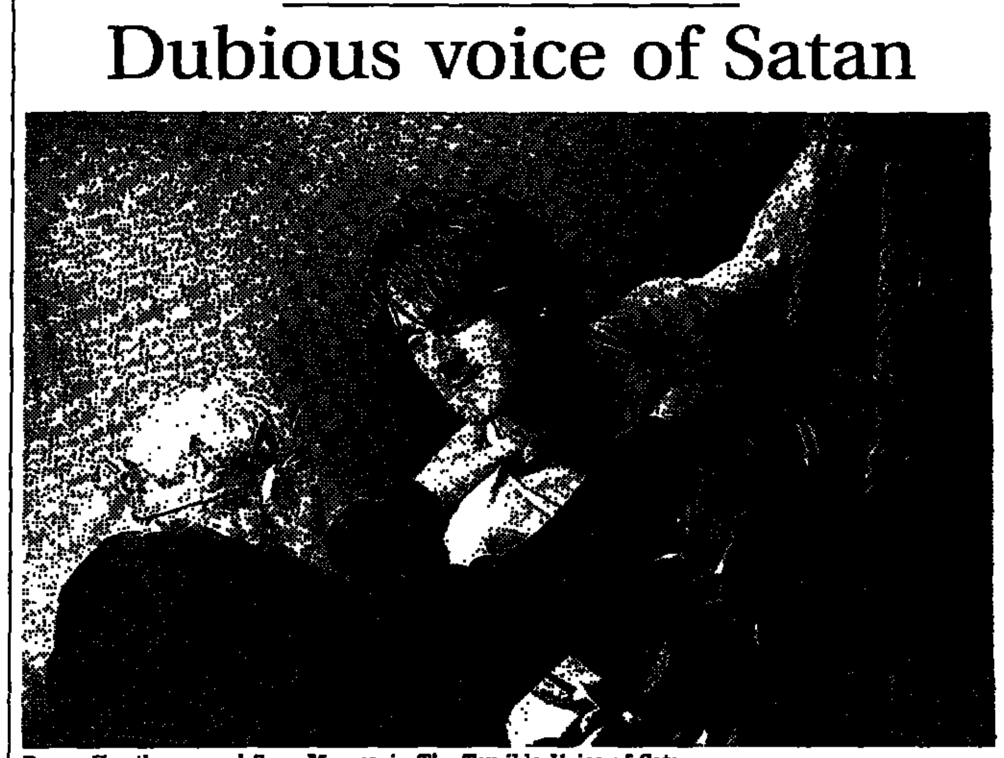
Andrew Shore's Geronimo is the latest of his portrayals of bourgeois bumptiousness, a bumbling cousin to his Don Pasquale; he handles the accent splendidly, times his entrances and exits perfectly, delivers all his gags with perfect deadpan. He's well matched against Jonathan Best's guileless Robinson and Tamsin Dives' bustling Fidalma.

The young people are spiritedly taken. The Elisetta, the American Kate Egan, was making her British debut; she sings cleanly and cultivates a good mode of visible disdain. Anne Dawson is a wholesome, perky Carolina and Mark Curtis a diligent Paolino. All of them are stylish, attentive performers; the pace is never allowed to falter.

Everyman Theatre, Cheltenham; sponsored by Cray Research (UK) Ltd

Theatre/**Malcolm Rutherford**

Dubious voice of Satan



Denys Hawthorne and Sean Murray in The Terrible Voice of Satan

Not everything at the Royal Court is wonderful. While David Mamet's *Oleanna* is playing to packed audiences in the main house, a much more dubious production, though also well-attended, is taking place in the Theatre Upstairs. Gregory Motton's *The Terrible Voice of Satan* is an example of a talented playwright losing his way, and one can't help thinking that it was the Royal Court influence that led him beyond temptation.

Motton was a specialist in the obscure to begin with, as anyone who saw the recent revival of his *A Message for the Broken Hearted* at the Battersea Arts will testify. He can write beautifully, but it is not always clear what he means nor who or even where his characters are. By the standards of *The Terrible Voice*, *A Message* was a model of clarity. The new play is all over the place, including under the Irish Sea.

The Court must have some responsibility. Most of its best productions in the last year or two have been either Irish or American. Yet it can be dangerous to point indigenous playwrights in foreign directions.

The Court sent the once promising Martin Crimp to New York to learn about America. He then wrote *The Treatment*, which showed not a hint of American subtleties or the American talent for self-parody. In *The Terrible Voice* Motton has gone very Irish, but to no great avail.

Irishness apart, the main literary influences on the piece seem to be Marlowe's *Dr Faustus* and, even more blatantly, Coleridge's *The Ancient Mariner*: modest titles for big works – a practice stood on its head by Motton.A few lines from Mephistopheles in *Dr Faustus* say it all: "Why this is Hell, nor am I out of it. Thinkst thou that I, who saw the face of God, And tasted the eternal joys of Heaven, Am not tormented with ten thousand Hells?" I suppose that's roughly what *The Terrible Voice* is about. Motton adds priests, sex, the IRA and a whole lot of gimmicks without moving forwards. *The Ancient Mariner* comes in with the albatross, in this case a magic bird initially huge and finally slung dead, and much diminished, around the waist of the principal character, Tom, as the boat in the Irish Sea runs into a storm. Don't forget that the word "bird" nowadays has more than one meaning.

The play is very well directed by James Macdonald. There are catching scenes of miniature cars along a track in a funeral cortege in the background, and a full-size bicycle in the foreground with striptease and simulated sex somewhere in the middle. Some of the staging draws on the National Theatre's *Carousel*.

I wouldn't fault the performances, especially Sean Murray as Tom, but the play is a terrible fall from grace: Paradise Lost.

Royal Court Theatre Upstairs. (071) 730 2554

Theatre/**Andrew St George**

Rope ensures a reputation

Few plays now can afford an actor the chance to say "You swine, you filthy swine" without causing a ripple of mirth in the theatre. But those closing lines of Patrick Hamilton's taut psychological thriller, *Rope*, ring like a tocsin round the Minerva Theatre, Chichester, where Keith Baxter has successfully revived the 1929 classic.

Rope shows how two Oxford undergraduates, Brandon and Granillo, murder their friend Ronald. They conceal the body in a chest, and invite Ronald's father, aunt and assorted friends to dine off the same chest. But one of the guests, a *louche* poet called Rupert Cadell, discovers their perfect and motiveless crime.

Stage time and theatre time are identical. After two hours, the dinner service is cleared, and the questions from Rupert become more probing. Before Brandon and Granillo can make off with the body, Rupert returns, confronts them, and wrings a confession.

Hamilton's writing is everywhere detailed, the stage directions punctilious: "He responds vaguely, as one who has only half understood". Yet it is also powerful, making psychological sense of the "foul, lewd and infamous jest", fashioning a drama of Jacobean scope and Jonsonian bravado. The play moves the thriller genre into drama, but does so by avoiding the whodunnit formula.

The direction (Keith Baxter) serves the purpose exactly. Each time new information arrives, the situation and the characters change. The opening, completely dark except for the two actors' glowing cigarettes which identify them, is all tension and uncertainty: "Do you think we'll get away with it?" The dinner-party performance which follows manages to maintain the sense that Brandon and Granillo are both acting and reacting as circumstances change. The action sprawls over the false-perspective set, a thunder storm worrying at the murderers throughout.

The acting of the three principals keeps pace with the subtleties of Hamilton's plot. Brandon (John Barrowman) differentiates himself neatly from the less expansive and much surlier Granillo (Alexis Denisof). Throughout the party, both indulge the thrill of a healthy crime and the *sprezzatura* of its execution. Both characters drink heavily, and at times stagger round the stage like bleary bachelors at a stag party. But their interchanges have an excitement and breathlessness born naturally out of their situation.

Rupert (Anthony Head) is all fastidiousness and frolic, a cultured creature already world-weary and bored, but witty enough to know it: "Of course I honour my parents. I send them a telegram of congratulations each year on my birthday." Whether the killers will hang depends on his attitude, a kind of late nineteenth-century decadence which finds its own moral standards when pressed. Head has the character down, fiddling at a cigarette, twitching at his cloak.

Elsewhere Simon Chadwick and Debra Beaumont are perfect as the hooray guests, while Richard Warwick adds commendatorial weight as the victim's father, Sir Johnstone Kentley.

Hitchcock adapted Hamilton's play in 1948, and it has remained a classic for exactly the reasons which mark its success here: it is, like Hamilton's other plays, tense, uneasy and psychologically acute. Hamilton died at 58 in 1962. His neglected fame should hang on more than just *Rope*.

Minerva Theatre, Chichester, until 7 August

New York/**Karen Fricker**

Fool Moon

Fool Moon is one of the most aggressively insubstantial productions to open on Broadway recently. It consists of its two multitalented performers, David Shiner and Bill Irwin, goofing around for two hilarious hours, backed by the lively 5-piece urban hillbilly band the Red Clay Ramblers.

Irwin, the personality familiar from his tv, film and stage appearances, is in good-hearted, rubber-bodied form; Shiner, the gangly clown from Cirque du Soleil's Nouvelle Experience, dominates the evening and is its revelation.

In the spirit of classic vaudeville, there's no semblance of a traditional plot linking the bits that Shiner and Irwin play out alone and with each other, the band, and the audience. What almost holds the show together - are the personae the performers adopt, which signal to the audience that we are in a clown-land.

Irwin's persona is sweet-faced and bemused, the innocent victim of external forces, like the weird magnetic pull always threatening to suck him offstage, and the unseen prankster who yanks the cord every time Irwin tries to speak into a microphone (neither performer utters a word during the show.)

Shiner spends most of his time poking fun at audience members. He climbs over rows of seats to find the marauder in "his" chair, borrows someone's camera and then destroys it (not really) and in the evening's funniest segment, brings people on stage to help him pretend-make a silent movie.

If Fool Moon is "about" anything, it's how willing people are to follow Shiner's charismatic lead. Everyone mimes, understanding instantly that his is a silent world; New Yorkers never seen without hands on their pocketbooks surrender fur coats and wallets to him; reticent folks end up rolling around the stage in a passionate mock embrace. Watching others abandon inhibition is a guilty pleasure.

While Fool Moon's lack of structure lends it a wonderful freshness and simplicity, the show does feel slightly underconceived and underrehearsed. Perhaps an outside eye - no director or writer are credited in the programme, so presumably Shiner and Irwin filled all creative roles themselves - could have given the show the edge that it needed to become something more than the charming diversion it is now.

Richard Rogers Theatre, Broadway

INTERNATIONAL

ARTS GUIDE

■ BERLIN

THEATRE

A new production of Neil Simon's play Runaway, directed by Wolfgang Spier, opens on Thurs at Komödie with previews tomorrow and Wed (882 7893). The Marlene Dietrich musical, Sag mir wo die Blumen sind, runs daily except Mon at Theater am Kurfürstendamm (300 6000). The Broadway musical 42nd Street runs daily except Mon till July 25 at Metropol Theater (2036 4117). This month's open-air repertory at Freilichtbühne an der Zitadelle includes Schiller's The Robbers and Shakespeare's A Midsummer Night's Dream (331 6920)

CONCERTS

Jethro Tull gives a concert tonight at Tempodrom (834 4073). There are daily jazz and rock events at Eierschale I, II and III (832 7097, 882 5305, 272 7370), and at Marlene Bar (Hotel Inter-Continental 2602 1253). Popular choral and orchestral concerts at Gendarmenmarkt feature Berlin Symphony Orchestra on Thurs and Fri, Komische Oper Orchestra on Sat and Berlin Symphonic Sound Orchestra on Sun (2090 2488). Nigel Kennedy and band play at ICC on July 24 (6959 5959). Placido Domingo sings at Waldbühne on July 26 (301 5055).

■ BONN

● Anna Tomowa-Sintow gives a song recital tonight at Bonn Opera. Tomorrow, Thurs, Sat: Francisco Araiza sings title role in Werner Schroeter's new production of Werther, conducted by Michel Sasson. Wed and Sun: Ken Russell's production of Salome. Fri: Cav and Pag. The company also presents six performances of an experimental Lohengrin opera by Sicilian composer Salvatore Sciarrino, opening at the Kunst und Ausstellungshalle on Fri. The opera season runs till July 25 (773667)

● Sommer-Klassik: Bonn's summer concert series includes a Bonn Sinfonietta programme on Wed at Rheinisches Landesmuseum, featuring music by Tippett, Finzi, Oscar Straus and Dvorak. Klassische Philharmonie Telekom Bonn gives orchestral concerts at Poppelsdorfer Schloss on July 17, 24 and 31, and at Bad Godesbergon July 18 and Aug 1 (655088/632500)

■ DRESDEN

Semperoper Tonight: Daniel Nazareth conducts MDR Symphony Orchestra in works by Beethoven and Tchaikovsky, with piano soloist Barry Douglas. Tomorrow: Mischa Maisky cello recital. Wed: Justus Frantz and friends play Brahms' Liebesliederwalzer. Thurs: Cyprien Katsaris piano recital. Fri: Nazareth conducts orchestral works by Beethoven and Ravel (4842 323)

■ FRANKFURT

● A two-week ballet season opens at the Opera House tomorrow with the first of four performances of William Forsythe's As a Garden in this Setting. Britain's Royal Ballet gives a week of performances starting next Tues, with Anthony Dowell's production of Swan Lake and choreographies by MacMillan and Ashton (236061)

● Final performances of the Andrew Lloyd Webber musical Evita are tomorrow and Wed at Alte Oper (1340 400). English Theater Kaiserstrasse has Alan Ayckbourn's farce Taking Steps daily except Mon till July 24 (2423 1620)

■ MUNICH

OPERA FESTIVAL

The first two new productions of the festival are Lady Macbeth of Mtsensk starring Hildegard Behrens (tonight) and Die Frau ohne Sctatten, staged by a Japanese production team and conducted by Horst Stein (tomorrow and Sat). This week's other performances include Die Zauberflöte and Cosi fan tutte. A new production of La traviata with Julia Varady opens on July 25. The festival runs till Aug 7 (221316)

OTHER EVENTS

Gasteig hosts a series of jazz concerts this week, featuring Chick Korea, Herbie Hancock, Jacques Loussier, Joe Henderson, Lionel Hampton and John McLaughlin (4809 8614). Repertory at Gärtnerplatztheater includes Ariadne auf Naxos and Kurt Weill's Street Scene (201 6767)

■ NEW YORK

THEATRE

● Kiss of the Spider Woman: a Kander and Ebb musical based on the novel by Manuel Puig, directed by Harold Prince, with a star performance by Brent Carver as the heroic homosexual window dresser (Broadhurst, 235 West 44th St, 239 6200)

● Angels in America: the first part of Tony Kushner's epic, freewheeling play about gay life, Reagan-era politics and Mormonism. Not to be missed (Walter Kerr, 219 West 48th St, 239 6200)

● The Who's Tommy: a stunning stage adaptation of the classic 1969 rock opera, a collaboration between its original principal author, Pete Townshend, and director Des McAnuff (St James, 246 West 44th St, 239 6200)

● Oleanna: David Mamet's powerful play about sexual harassment and political correctness (Orpheum, 126 Second Ave at 8th St, 307 4100)

● Jelly's Last Jam: the music of Jelly Roll Morton, self-proclaimed inventor of jazz, and an unsparing portrait of the man himself (Virginia, 245 West 52nd St, 239 6200)

MUSIC/DANCE

● Kurt Masur conducts New York Philharmonic Orchestra in works by Brahms and Schumann at Carnegie Hall on July 14, 15, 21, 22, 28 and 29. The soloist in Schumann's Piano Concerto in this week's concerts is Richard Goode (247 7800)

● Mostly Mozart Festival continues daily except Sun till Aug 21 at Avery Fisher Hall. This week's concerts are conducted by Gerard Schwarz, with soloists including Christian Zacharias and Dmitri Sitkovetsky (875 5030)

● New York City Opera's 50th anniversary season opens at Lincoln Center on July 28 and runs till November 21. The opening performances are Carmen, La boheme and Madama Butterfly (870 5570)

● New York City Ballet is in residence for the next two weeks at Saratoga Performing Arts Center, Saratoga Springs (518-587 3330)

STUTTGART/LUDWIGSBURG FESTIVAL Handspring Puppet Company from South Africa bring their Büchner adaptation, entitled Woyzeck on the Highvelds, to the Alte Keller at Bietigheim on Fri, Sat and Sun. The next event is a Royal Philharmonic Orchestra concert on July 29 (07141-949810)

■ VIENNA

● The season of open-air performances in the palace gardens of Schönbrunn runs till Aug 14 and features Don Giovanni and Moscow Chamber Ballet's staging of Mozart's Requiem (513 0851)

● Final performances of Vienna's Jazz Festival are Albert Collins and Etta James tonight, WasNotWas tomorrow, Los Lobos on Wed and Gangstar Quartet with Donald Byrd on Thurs. Performances begin at 18.00 at Museumsquartier, Messeplatz 1 (5454 540)

● Edinburgh Youth Orchestra plays music by Malcolm Arnold, Tchaikovsky and Shostakovich tonight at Hofburg (5151 4225). Leopold Hager conducts RTL Symphony Orchestra of Luxembourg at Theater an der Wien in orchestral works by Brahms, Dvorak, Ravel and Richard Strauss (Wed) and an operetta concert (Thurs). Other events this week in Vienna's Klangbogen concert series include piano recitals by Roland Batik (Fri) and Vesselin Stanev (Sun), both at Schönbrunn (4000 8410)

● Karajan open-air film festival at Rathausplatz offers screenings of star-studded opera and concert performances from the 1960s, 1970s and 1980s, daily till July 31.

■ PARIS

● Final performances of the season at Opéra Bastille are Carmen (tonight, Thurs, Sat) with Beatrice Uria-Monzon/Denyce Graves in title role and Samuel Ramey/Barseg Tumanyan as Escamillo, and Faust (tomorrow, Fri) with Giuseppe Sabbatini, James Morris and Nancy Gustafson (4473 1300)

● This week's guest artists at Lionel Hampton Jazz Club are Boto et Novos Tempos, Brazilian jazz and samba, daily till Sat. Next week: Tori and Richard Allen, gospel and soul (Hôtel Meridien Paris Etoile, 81 Boulevard Gouvion St Cyr, tel 4068 3042)

● Ballet de l'Opéra de Paris presents a Balanchine programme on Wed and Thurs at Arènes de Nîmes followed by Giselle on July 21, 22 and 25 (6667 2802)

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The Royal Commission on Criminal Justice: contrasting views from protagonists before the bench

Danger of the simple route

Fraud is a crime which leaves chaos in its wake. In many cases, investors suffer substantial loss. Often savings built up over a lifetime's work disappear. Those charged with responsibility for investigating and prosecuting serious fraud will find much to welcome in the report of the Royal Commission on Criminal Justice. The commission has carefully addressed the issues and given a firm pointer for the future.

Although lessons from a small number of high-profile cases were learnt long ago, the Serious Fraud Office continues to be criticised for the way in which those cases were handled. It is the SFO's policy to narrow the investigation, as far as possible, and then to charge only the principal participants in the fraud with a reasonable number of offences.

However, there is a point beyond which it is dangerous to simplify. We must not sacrifice thoroughness for brevity and run the risk of prosecutions collapsing at a later stage. The SFO has always worked to a target of one year for an investigation and one year for the prosecution. Now the Royal Commission has proposed that targets should be set for the amount of time to be taken up by each stage of the trial. It has also proposed that written skeleton arguments be submitted in advance and that time limits be imposed on oral argument. These would be valuable new disciplines.

An extended debate has taken place while the Commission has been sitting. Many of the ideas canvassed have found a place in its report. For instance, much has been said on whether certain City offences should be dealt with in the criminal courts or by the regulatory bodies. While the criminal justice system cannot abdicate responsibility for prosecuting serious fraudulent conduct, there may well be cases where regulatory action would be more appropriate.

The SFO continually keeps possible reference to a regulator under review in the course of its investigations and prosecutions. The commission has endorsed this approach, provided regulatory action is capable of ensuring that a person found guilty by the appropriate regulatory tribunal can be banned from the market and ordered to compensate the victims.

The SFO is currently in discussion with the regulators about mechanisms which might lead to more cases being handled by the regulators – with its agreement.

The SFO supports the commission's desire to see a system which would mean that a decision on whether or not to prosecute, and the choice of charge, could take into account a defendant's readiness to accept a regulatory penalty of sufficient severity to justify dropping the prosecution or reducing the charge. It would require the defendant's agreement to the regulatory penalty, and, if prosecuted on a lesser charge, to pleading guilty to that charge.

The SFO is currently exploring how more fraud cases might be handled by regulators

Under Section 2 of the Criminal Justice Act 1987, the director of the SFO can compel a person to answer questions or produce documents on pain of prosecution and up to six months' imprisonment if he refuses to answer. It must be remembered that fraud is uniquely a document-based crime. Without a means of getting at the underlying material, it would be impossible to find out what happened. Section 2 is mainly used for that purpose.

Banks and professional firms are usually happy to co-operate when they receive a notice under the Section. It is also used to interview suspects, but the safeguard is that the power is only investigatory. A transcript of an interview under the Section cannot be admitted in evidence unless the witness changes his story. Also the legal professional privilege applies.

The commission has concluded that it is necessary and right that investigators in serious fraud cases should retain the section 2 power. That is welcome news to those who face the task of unravelling these immensely complex cases.

Contrary to the belief of some of the SFO's critics, the commission found that this power had worked in the interests of justice. Moreover, it considered the section had not been unfair to those questioned, who were likely to be persons in responsible positions with ready access to legal advice charged with sophisticated offences which might otherwise go not merely unpunished but undetected.

The commission would also like to see section 2 being used to help investigations conducted in the UK on behalf of foreign investigating authorities and, significantly, in support of many investigations at present undertaken with guidance from the fraud investigation group of the Crown Prosecution Service.

A feasibility study is recommended into the possibility of merging the two fraud authorities.

The commission has, however, gone further. It considers that section 2 should, on the authority of the director, be extended to the police. That is not, in fact, something for which the SFO has pressed, but it clearly deserves careful consideration.

Some change is also recommended to the culture of the criminal justice system. Currently, the prosecution lays bare its store of knowledge and evidence to the defence at an early stage, while the defence can keep its case up its sleeve until the trial.

The system dates back to the days when defendants were inarticulate, uneducated and lacked the resources to defend themselves. It is, however, quite inappropriate to serious fraud trials. Hence, the recommendation for more advanced disclosure from the defence in such cases will reduce the number of issues for the jury and vastly improve the management of cases.

George Staple

The author is director of the Serious Fraud Office.

Wrong crimes, wrong remedy

Runciman is clearly not the last word on reforming the investigation, prosecution and trial of serious fraud. Indeed, a half decade after the changes inspired by the Roskill report, why was serious fraud even on the agenda?

The answer lies in the curious way we have of responding to perceived shortcomings in the criminal justice system. When our confidence in it is punctured, we resort to a quick-fix patch of reform without first asking whether it might not be better to replace the whole inner tube.

It was just such a response in the mid-1980s that led to the setting up of the Roskill committee to reconsider the prosecution of fraud. It also explains how its recommendations, or at least some of them, came to be implemented. Before turning to Runciman's gloss on Roskill, the following questions should be considered.

- Why, when it now handles only a handful of cases, was it necessary to set up the Serious Fraud Office as a separate high-profile agency at all? The Crown Prosecution Service could have been better resourced nationally, with access to accounting and other assistance, and have dealt with all fraud.
- Where is the evidence that the Crown Prosecution Service, Customs or the Inland Revenue are hampered by the fact that they lack the SFO's Section 2 powers removing the right to silence?
- How is it that the whole of the US manages to prosecute white-collar crime effectively while still preserving the Fifth Amendment right to silence and without requiring advanced defence disclosure?
- How is the performance of the SFO to be judged? Surely not by either media campaigns or its conviction rate. Judged by convictions, it is doing well. Only the tabloids suggest the SFO should ensure all suspects remain in jail on remand and that it should deliver a 100 per cent conviction rate.

The best way to monitor the SFO would be to set up a Fraud Commission, one of Lord Roskill's recommendations which was not implemented.

It is regrettable that Lord Runciman and his colleagues should not have not thought fit to make this essential recommendation, so that in future we would not have to appoint Royal Commissions to discover what is wrong in this area.

What needs to be stressed about the Royal Commission's proposals is that much caution should be shown before the SFO's powers are enhanced.

The commission recommends that the Section 2 powers of questioning and evidence gathering should be given to the police as well as the SFO's lawyers and accountants. The argument for this recommendation in the commission's report is that it finds the present situation anomalous. The commission does not say how the anomaly arises.

It arose after the Roskill Committee had recommended that the police should, indeed, have these powers. But the government concluded those powers would sit uncomfortably with what were then the recently introduced safeguards of the Police and Criminal Evidence Act.

Does society believe white collar criminals pose a greater threat than rapists?

One may ask now what has occurred in the past seven years which makes this judgment invalid?

If the commission's recommendations are introduced, what is to prevent the same police officer interviewing a suspect under Section 2 and then subsequently interviewing that suspect under caution? How is one to safeguard the suspect then?

Indeed, if the SFO and CPS are merged we are looking at Section 2 powers being delegated to possibly thousands of police officers nation-wide.

One of the commission's recommendations which appears to have received wide public support is that proposing greater pre-trial disclosure by the defence. Put that way, it seems a perfectly sensible, unobjectionable proposal.

However, one has to consider to what extent the Crown is no longer to bear the burden of proving an accused guilty and to what extent an accused is now being asked to provide as much evidence as possible for his own personal damnation.

Consider a situation where an accused, having fully met in a defence case statement the prosecution's case, finds that the prosecution decides, quite oppressively and on the basis of the accused's own disclosures, to change tack and confront him with a completely new allegation.

One could envisage an absurd situation where the accused and the prosecution are engaged in some co-operative effort whose object is not to achieve fairness and justice, but to make certain that no person accused of serious fraud is ever acquitted.

Perhaps even more worrying, however, is the recommendation that, just when the Judith Ward case and others have secured for the defence access to all the material in the prosecution's hands so that future miscarriages of justice resulting from non-disclosure might be avoided, there is a recommendation that this right be severely curtailed.

The commission recommends that the prosecution need disclose only that material which it deems relevant following the revelation of the defence. What about those cases, and I have experienced several, where hidden away in the unused material there is a defence of which the accused knows nothing?

Are we now going further down the totally irrational path of saying that our civil liberties must be preserved, if not enhanced, for those accused of crime, but the one exception being made is for those accused of white-collar crime?

Does society really believe they pose a greater threat than is posed by those accused of murder, terrorism, robbery or rape?

Monty Raphael

The author is the senior partner of the criminal law firm Peters & Peters

LETTERS TO THE EDITOR

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FO busy in Shanghai

From Mr Alastair Goodlad MP.

Sir, Ms Spence's letter ("Poor UK show in Shanghai", July 2) asked why the Foreign Office does not stop being archaic and get down to business. It has, long ago, and it does, every day. She has clearly not had enough contact with us to know this. If she has any complaints about the quality of our post in Shanghai, she would give us details and we will investigate them. We have had no other complaints about it. Our exports to China for the first four months of this year show a 75 per cent increase over the same period last year.

One of the FCO's main tasks is to help British business. Nearly 25 per cent of our resources are devoted to it directly. Indirectly, much more. Our customers tell us that we are providing them with the service that they want. We wrote more than 6,000 market information reports for them last year. Ninety per cent said they would use our services again.

The opportunities for British business in the Far East are enormous. The FCO can help firms win that business. Let us all work together to improve Britain's performance there even more.

Alastair Goodlad,
minister of state,
Foreign & Commonwealth Office,
London SW1A 2AH

Cadbury should concentrate on working capital not profit

From Mr A H Wallis.

Sir, I was disappointed, but not entirely surprised, to read that implementation of the "going concern" requirement of the Cadbury Code is to be deferred ("Cadbury guidelines face delay", July 5).

Perhaps the reason may be seen in the approach of the working party which produced the draft guidelines. In a worthy endeavour to make them comprehensive, it has fallen into the trap of making them over-prescriptive, introducing a number of factors which are either obvious or irrelevant. The result is a suggested procedure which is far more complicated than, in the majority of cases, it need be.

The working party rejected the normal approach to profit forecasts, on the grounds that the work involved was excessive and it was not part of the reporting accountant's brief to comment on the assumptions.

Both objections could be surmounted if it could be agreed that the objective is for the directors to be able to say, and the auditors to confirm, that "the company has adequate working capital for its needs, and the accounts have therefore been prepared on a going concern basis". Such a statement could be incorporated in the statement of directors' responsibilities.

The advantage of a working capital statement is that the procedures are well understood by most boards and practitioners, and are less onerous than those relating to a profit forecast. It should normally be possible to obtain from bankers a statement to the effect that they see no reason why the company's committed facilities should not be extended beyond the review date, thus allowing the board to look to a date 18 months beyond the balance sheet date. It is then a matter of judgment whether the requirement can be satisfied by a relatively simple desk job, or whether a more rigorous "bottom-up" exercise is needed.

Such a task, which my company has carried out in recent years, to the satisfaction of the board and the auditors, has not proved unduly onerous or expensive. Of course, where the exercise shows a company is operating near the margin, it will need to be followed up by a more rigorous examination. However, the majority of companies do not operate close to the margin and, given a proper exercise of judgment by the auditors, attention could be concentrated on the smaller percentage of companies which have given rise to the concerns addressed by the Cadbury report.

A L Wallis,
group finance director,
AAH Holdings,
76 South Park, Lincoln

Lack of commitment that leaves Gatt in doubt

From Mr James Robertson.

Sir, Your editorial, "Full speed ahead on Gatt" (July 9) suggests that trade negotiators "are condemned to succeed" in a world trade agreement under the Gatt. I beg to differ. Even after several years of negotiations, a Gatt agreement is by no means assured. As you said, final agreement in agriculture has not been reached; given the politically sensitive nature of agriculture and the unwillingness of any of the G7 leaders to stand up to special interest groups, agreement may not even be possible.

When they start to pay much more than lip service to a world trade agreement, then the Uruguay Round could be completed in days. Given the lack of western leadership in others areas such as Bosnia, I for one will not be holding my breath.

James Robertson,
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Why Commission deserves two cheers on EC car pricing

From Mr Stephen Locke.

Sir, It is hard to avoid the conclusion that John Griffiths ("Exchange rates main factor in European car price comparisons," July 5) is looking through the wrong end of the telescope in assessing the reasons for differences in car prices between EC member states. Exchange rates in themselves are no more responsible for price differences than the Retail Price Index is a cause of inflation: they are merely a means of translating one country's prices into a form which can be compared with another's. Short-term fluctuations – especially dramatic ones such as those associated with the exit of sterling, the lira, the Spanish peseta and the Portuguese escudo from the Exchange Rate Mechanism last September – may upset long-established comparisons, but they do not invalidate them.

The fact is that pre-tax car prices in the UK were well above those in most other EC countries throughout the 1980s and early 1990s; even the substantial fall in sterling against the D-Mark, Belgian franc, French franc and Dutch guilder within the last year has done no more than shift the general level of UK prices to roughly the EC average, with some models still costing 20 to 30 per cent more than in other countries. Whether even this state of affairs remains depends heavily on the car manufacturers' pricing policies in the UK, and on the manufacturers' ability to resist the temptation to return to their old view of this country as a high-price, high-profit market where consumer interests come a long way down the list of corporate priorities.

What underlying factors should guide car pricing in different EC countries is an interesting issue for debate, as John Griffiths identifies. It may well be that in a completely unrestrained market subject to differing tax treatments in different areas, manufacturers would be justified in varying their pre-tax prices in a way that maximises their investment returns. But we don't have an unrestrained market – EC limits on price differences were introduced as part of the "deal" on selective and exclusive distribution reached between the Commission and the manufacturers. Also, the Commission, rightly, wanted to demonstrate the benefits that could flow directly to consumers from a single, barrier-free market in the crucially important cars sector.

For its efforts so far the Commission deserves at least two cheers from the consumer corner – and the new data that will be generated by these twice-yearly car price comparisons will start to give us a clear, authoritative picture of whether the EC single market for cars is a myth or, at last, a reality.

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Monday July 12 1993

Mr Yeltsin's dwindling power

RUSSIA'S President Boris Yeltsin insisted that he went to last week's summit of the Group of Seven industrial nations in Tokyo as leader of a great power. But at home, the state he represents is looking weaker by the day. Government remains gripped by debilitating, and overlapping, power struggles between president and parliament, centre and regions. Mr Yeltsin battles to gain acceptance of a complex new constitution, and in the process hands away an increasing array of powers and rights from the centre. And one by one, Russia's regions appear to be seizing their own destiny: in the past 10 days alone, the parliaments of the Far Eastern region and of Sverdlovsk in the Urals have claimed the status of republics within Russia, thus asserting greater economic independence an escalating battle between the regions and the centre for control over resources.

In theory, the outcome of this process could be violent anarchy, as ever-smaller units of population or territory dispute the legitimacy or effectiveness of rule from Moscow and take matters into their own hands. In practice, it has not yet come to that. But to prevent the current mess turning into something a great deal worse, Russia obviously needs greater clarity in the relations between its multifarious centres of power. Ideally, this would be provided by a new constitution setting out in brief, general but unequivocal terms the respective rights and duties of the Russian state and its subjects. Unfortunately, this is far from what seems to be emerging from the constitutional debate which is now reaching a climax.

Empty rights

Russia cannot continue with its present, Soviet-era, constitution, patched up with liberal additions. Its main flaw, graphically demonstrated at succeeding Congresses of People's Deputies over the past year, is that it gave ample but empty rights to the Supreme Soviet (legislature) and made little provision for an executive president. Despite the popular mandate with which he was elected in 1991, Mr Yeltsin's attempts to run a democratic presidential republic with a communist "parliamentary" constitution were doomed to end in confrontation.

The problem is that this struggle cannot begin to be decisively resolved without adoption of a new, more legitimate constitution – and that such a constitution cannot legally be adopted without the agreement of the Supreme Soviet, a body which would thus be voting itself out of existence. Though Mr Yeltsin's hand has strengthened, especially since the endorsement of the April referendum, he is still in the position of having to act unconstitutionally in order to put the state on a democratic base – a move he has seemed prepared to make several times but from which he has always backed away.

Structural problems

The important question is whether the constitution as it is emerging is the right one for Russia and will stand the test of time. It is admirably dedicated to human and civil rights; underpins the right to private property; and pledges allegiance to independent judiciary and media. But it is too long on detail, some of it contradictory. It gives citizens too many economic rights like free medical care, employment and minimum wages which Russia cannot fulfil.

Worst of all, it does not address the deep structural problems left behind by the Soviet state, simply accepting the Lenin-Stalin territorial division of the country into regions and "ethno-territorial" republics and granting the latter more rights than the former. Small wonder that the regions are now seeking to redress the imbalance by declaring themselves as republics too, and that Russia's most numerically important minorities – the Caucasians, Central Asians, Balts and Ukrainians – complain they have been left without guarantees of their linguistic and other cultural rights.

All this may not prevent Mr Yeltsin from forcing through his constitution in something resembling its present form. But it is hard to see such a document settling Russia's chronic constitutional uncertainties once and for all. As they promise yet more money to assist the country's political and economic transformation – and to shore up Mr Yeltsin's centre – G7 leaders would do well to remember that on both fronts, the evolution is going to be both protracted and messy. It is in no one's interest that Russia should disintegrate, but in the end no one may be able to stop it doing so.

Defining the fiscal deficit

THE DEBATE over the UK budget deficit is taking place in a fog of spurious assertions about how much of it is "cyclical" and how much is "structural". It is a crucial question, but the truth is that no-one will know the answer for a number of years, if ever. In the meantime, the government should focus more on reducing the deficit and rather less on defining it.

At a meeting of European Community finance ministers Kenneth Clarke will today be defending the British government's economic plans against the charge that they betray undue optimism about the £50bn budget deficit. The criticism is partly based on John Major's claim that 70 per cent of the gap is cyclical, and will therefore fall as the economy picks up. EC officials consider this dangerously complacent, citing OECD estimates that less than half of the deficit, now 8 per cent of GDP, can be so summarily dismissed. The rest, they say, is a structural increase in spending that requires further attention. Which is right?

The sheer size of the gap between deficit "cyclists" and "structuralists" is a good clue that the desire for precision is misplaced. Both sides could make things clearer, however, if they bothered to separate two distinct issues. First, what part of the rise in public borrowing has occurred as a result of the recession? And second, how much of that will go away as the economy picks up again? The first question can be answered relatively easily. Unfortunately, it is not the one upon which the sustainability of the British public finances depends.

Lower tax revenues

The automatic effects on the budget of the recent decline in UK output are quite well understood. If, in 1990, the British economy had continued to grow at a steady pace, output would now be around 7 per cent higher. Losing that output to the recession led to higher public spending and lower tax revenues which between them left the Public Sector Borrowing Requirement 4.75 per cent higher as a percentage of GDP than it would otherwise have been.

Where Britain is headed depends on how much of that lost 7 per cent of total output is still on offer, and how fast the economy can make it up. On the first, most accept that the length of the recession has taken its toll on industrial capacity and skill levels. Reasonable estimates suggest that the amount of usable spare capacity – or 'output gap' – is closer to 3 per cent. In theory, the economy could safely grow faster than its trend growth rate of 2.25-2.50 per cent per annum, until at least this degree of slack was used up. But whether the UK is soon in a position to achieve faster than trend growth may depend less on the output gap than on the speed of world recovery, domestic consumption patterns and the state of the labour market, all of which consistently defy forecasters' predictions.

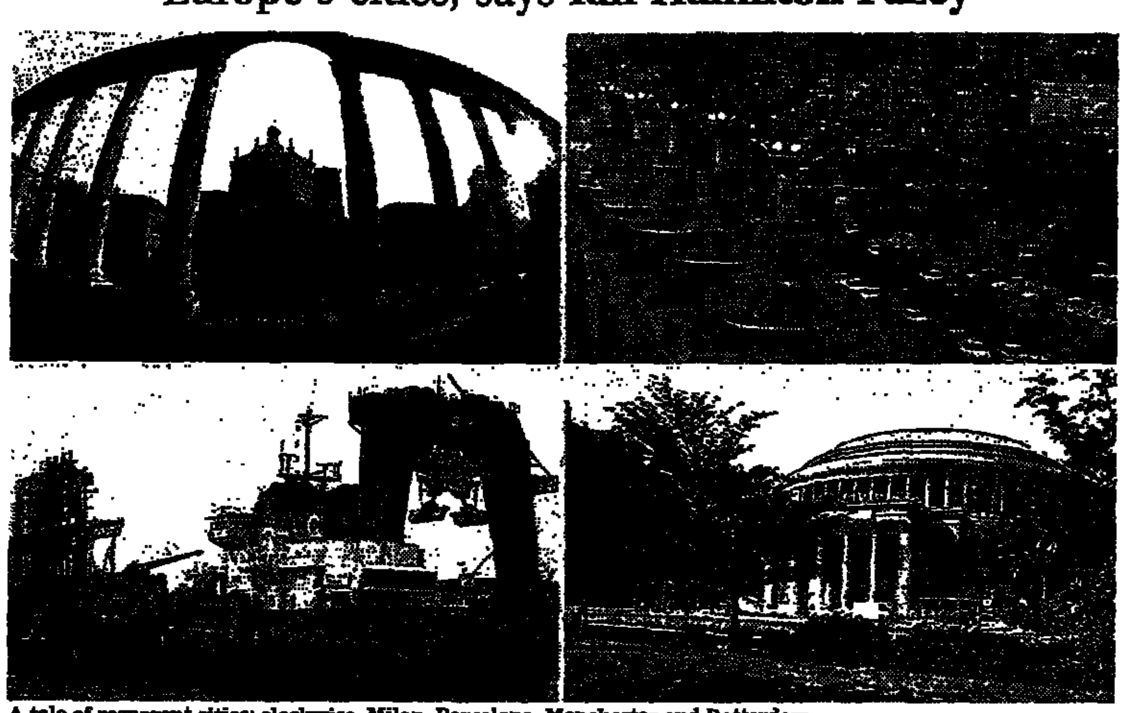
Accelerating debt

The size of the UK Public Sector Borrowing Requirement sets a clock ticking on Britain's uncertain growth prospects, because of the cumulative effect on the national debt. If British GDP were to grow 3 per cent on average over the next three years, the PSBR should fall to around 4 per cent of GDP in 1997. By then, consistently high levels of public borrowing would have increased the national debt to 55 percent of GDP compared with 42 per cent in 1992. If, however, yearly growth averaged only 1.5 per cent, the PSBR would be almost unchanged and the debt ratio would be rising towards 75 percent. This kind of accelerating debt would have too many of the traits of the 1976 crisis.

Mr Clarke may be unable to control either the degree of spare capacity in the economy or the rate at which it grows over the next few years. He can, however, determine how much any given rate of growth goes towards reducing the PSBR. Considering the stakes involved, he should commit himself to tightening fiscal policy further, as a hedge against disappointing growth. If this turns out to be over-cautious, he could always compensate by lowering interest rates. Better that he lose the prize for labelling the deficit correctly than risk the horrors of an old-fashioned public debt crisis.

In search of the urban idyll

There is a new spirit of civic entrepreneurship in Europe's cities, says **Ian Hamilton Fazey**



A tale of resurgent cities: clockwise, Milan, Barcelona, Manchester and Rotterdam

Just before the International Olympic Committee meets in Monte Carlo in September to choose where to stage the 2000 games, a trade mission from north-west England plans to fly to Paris.

The idea is to take advantage of the publicity surrounding Manchester's Olympic bid. Members of the mission, put together by Manchester Chamber of Commerce and Industry and the accountants, lawyers, bankers and business advisers who make up the city's Financial and Professional Forum, will be talking to their opposite numbers in the Paris chamber about doing more business together.

Such marketing is part of a new age of civic entrepreneurship in Europe, according to Professor Michael Parkinson, director of the European Institute for Urban Affairs at Liverpool John Moores University. He says it started less than 10 years ago, with several of Europe's old cities fighting back against what was widely seen as terminal decline.

Public and private sectors have banded together, sometimes informally, sometimes through organisations formed to promote the cities they depend on for a living. All have pushed cities rather than regions, and broad economic development rather than solutions to specific urban social problems.

Parkinson's institute – which used to be the Centre for Urban Studies at Liverpool University, but negotiated a transfer to the more entrepreneurial "Liverpool John" last year – has recently completed a three-year study of 24 cities for the European Commission*.

One of the most telling examples is Hamburg. In 1985 its chamber of commerce and 10 leading banks set up the Hamburg Business Development Corporation to attract new companies and improve support for existing ones. Target sectors were the media, information technology, electronics, aviation, medicine, biotechnology, harbour services and environmental technologies.

Urda Martens-Jeebe, the corporation's director, says its first five years brought in 387 new companies: 81 from Germany, the rest from Scandinavia, Taiwan, China, the UK, Japan, Korea and the US. The corporation acted as consultant to 769 businesses. She says an estimated 16,000 jobs were created and capital investment of DM3.7bn (£1.45bn) boosted construction.

Other cities have used particular events as a focus for team-building. Manchester's Olympic bid is an example. According to KPMG Peat Marwick, the accountant, Manchester's bid will be worth £200m to the city even if the bid fails.

Last week, Ogden, a leading US entertainment management group, signed a 20-year contract to run the Manchester arena from its opening in 1995. The group will create more than 700 jobs in the city.

Other cities behaving in an entrepreneurial manner include:

- Rotterdam's development board, Rotor, a joint venture of the municipality and the chamber of commerce. It works as a think-tank, helping to balance social concerns such as poor housing with economic solutions.

The city's publicly owned port authority modernised the docks and improved the local transport infrastructure. Parallel investment in office space by the private sector during the 1980s has been justified by annual growth of up to 10 per cent in the numbers employed in professional services. A "brainpark" for small, high-technology companies was set up near a university.

- Dortmund's civic leaders developed closer ties with the private sector after a large factory closure in 1981. As a result, the emphasis switched from social to economic priorities.

Research and development centres for transport technology and robotics were attracted, and a technology transfer system set up between university, polytechnic and the chamber of commerce.

- Montpellier evolved what it called a "technopole" strategy in 1985 – a development agency supported by all sectors of the community to focus growth on medicine, computer technology, agronomics, communications and leisure.

"Cities are back on the agenda, not as basket cases but as economic leaders," Parkinson says. "Cities have to be re-evaluated. They need to be recognised again as the wealth of nations. They are great sources of added value. In Europe, there is an emerging network of cities with similar entrepreneurial outlooks."

He suggests the most successful entrepreneurial cities are those which have defined themselves as European, rather than by their regional or national role. Glasgow, Manchester, Birmingham, Rotterdam, Hamburg, Barcelona, Lyons, Lille, Dortmund, Stuttgart, Frankfurt and Milan are all examples.

Many have started forming trans-European networks. For example, Rotterdam Port Promotions Council, backed by most Netherlands businesses dependent on trade through the Maas estuary, has been touring Europe this year to build contacts and seek out business. It stresses Rotterdam's "gateway" role to Europe's road, rail and inland waterway freight networks.

Another example is Manchester, which has joined an association of similar regional capitals that have developed as financial centres in their own right, shaking off the domination of their countries' capital cities. Manchester boasts more than 50 banks from around the world and a 50-strong venture capital community. There is also a group of 100 corporate finance advisers that offers "mini merchant banking" for medium-sized companies, acting in mergers, acquisitions and disposals. Their fee income is running at more than £20m a year. Other cities in the group include Barcelona, Bilbao, Turin, Stuttgart, Lyons and Edinburgh.

A network of successful cities, therefore, seems to be emerging across Europe, with each a focus for growth and regional economic hegemony. Even the urban population decline of the 1970s and 1980s is slowing as old cities bounce back.

Parkinson says: "After 15 years of decline, at some point in the mid-1980s, big cities started to grow again, or at the very least, they started stabilising. The trend is solid and is reversing the former outward drift of population. We are developing a Europe of the cities, not a Europe of the regions."

One problem of such patchwork economic development is that benefits are not evenly distributed between cities, within them, or between cities and the regions around them. In some cases, inequalities are emerging between neighbours. Marseilles, for example, has not developed a coherent strategy like Montpellier and, Parkinson says, lags in economic development.

Liverpool similarly lags behind Manchester, only 35 miles away. This is partly because it is smaller, with a less diverse economic base. One in six men traditionally earns a living through manual work. Male unemployment rates of about 25 per cent have fuelled internal divisions in the city and – for 10 years to 1991 – caused image-damaging political strife. Only this year have public and private sectors set up an office to work together – seven or eight years behind comparable cities.

Even within successful cities, individual beneficiaries are mainly educated, qualified or trained people. Parkinson warns: "You have a polarised labour market, overlaid with the problems of ethnic minorities and immigrants. Some people are being excluded. We found that Hamburg has more millionaires than anywhere else in Europe, but more people on welfare. One of the key challenges of the next couple of decades will be how to include the excluded. Another will be how to improve a city's competitiveness without increasing the social cost."

One problem for the European Community is that it allocates funds for economic development on the basis of reducing regional imbalances. But this means two cities with similar problems are treated differently because of their geographical location.

If the Europe of the cities thesis proves correct, it may require some shift in the way the EC targets its regional aid. But the bigger implication is that, as cities compete in the way that corporations do, the case for better urban government, capable of taking a long view about investment in infrastructure and human resources, will become ever more irresistible.

*Urbanisation and the Functions of Cities in the European Community, EC, Luxembourg, Ecu13.

Samuel Brittan

Trade and macroeconomics

The Tokyo trade package is likely to help growth, jobs and output, even though some of the estimates given by summit participants are highly misleading. The main reason growth should benefit is given by that unsatisfactory, but occasionally unavoidable, word "confidence". News that increases the chances of a successful conclusion of the Uruguay Round should raise what Keynes called the "animal spirits" of businessmen when they consider whether to invest, increase stocks or take on workers.

Although this effect is probable, I am much more certain of a negative statement. A breakdown of the Gatt talks and the associated risk of trade wars, would have dealt a severe blow to confidence at a time when it is fragile and would have risked turning prolonged recession into depression.

It is, however, noticeable that neither academic macroeconomists nor economic commentators have been in the forefront of the trade debate. One of the reasons is the pressure of specialisation. Trade negotiations are detailed, commodity-by-commodity affairs which only full-time experts can follow properly.

There is a more interesting reason for the lack of contact between the two worlds. This is the difficulty of making true intellectual contact, which goes back a very long time. In most popular histories of the Great Depression, the savage increase in the US tariffs under the Smoot-Hawley Act of 1930 is given a large role in converting the recession of the early 1930s into the Great Depression. Yet it receives hardly a mention in many monetarist and Keynesian accounts. I can find no reference to it or anything related to it in either Friedman's Monetary History or Galbraith's Great Crash.

In contemporary debates, macroeconomists have used the threat of "increased protection" (please not "protectionism", which adds a redundant extra syllable and should be used only to describe the belief, not the phenomenon) to browbeat their opponents about what would happen if their own favourite nostrums failed to be accepted.

The plague of popular economic discussion is the fear of what Mill called a general glut

There is a real difficulty in translating from the world of trade negotiations into that of conjunctural issues. The frequent citations of the number of jobs supposed to be created are based on the Gatt estimate of a \$200bn (£133bn) per annum increase in world trade from a successful conclusion of the whole Uruguay Round. But this usage is a cheat. The Gatt estimate is of the increase in trade between countries, not of output, not of welfare and still less of employment. Freer trade reallocates jobs more efficiently inside each country but does not directly destroy or create new jobs.

There are yet further reasons for the embarrassment of economists on trade issues. They can be summed up by Friedman's saying, "Protection is better in theory; free trade is better in practice." There have been recurrent complicated theories over the centuries trying to show that there are benefits to individual countries from certain carefully chosen kinds of protection. The May issue of the American Economic Review is partly devoted to professional disquiet on what the public and their students should therefore be told.

Professor Paul Krugman, who has invented many of the supposed exceptions to free trade theory, now believes that the likely benefits are small; that any exceptions will be wrongly chosen; and that undergraduates will benefit more from a thorough exposure to the mainline case for free trade.

Most popular support for protection has nothing to do with esoteric trade theories. "How can we compete," it is asked, "with Czech workers being paid a tenth of ours and south-east Asian workers being paid one hundredth?" The most effective refutation is to be found not in trade theory but in the elementary macroeconomic exposition of the circular flow of funds.

An excellent example is in Friedman's Free To Choose, where he shows step by step how the proceeds from Japanese exports (the bogey when he was writing) are used either directly to purchase goods from other countries or contribute indirectly by capital exports. The plague of popular economic discussion is the fear of what Mill called a general glut; and there is no more important task than to explain why a glut is extremely unlikely given a background of moderately sensible fiscal, monetary and exchange rate policies.

OBSERVER

High merit, low hope

■ What price a Brit as next president of the European Commission in the wake of last week's successful trade negotiations?

With Jacques Delors due to go at the start of 1995, there's little doubt who'd be the UK's ideal choice: EC trade commissioner and former cabinet minister, Sir Leon Brittan. Whitehall has been impressed by his skill in guiding the market opening negotiations of the "quad" group of countries to fruition, as well as by his performance at the G7 summit in Tokyo.

While national political leaders were quick to claim credit for progress towards a global tariff-cutting agreement, Brittan could fairly reflect that it was he who started the talks on the way to breakthrough.

He broached the idea of a market-access deal with the outgoing US administration in January, and later took it up with Bill Clinton's special US trade representative, Mickey Kantor. It was only after the two of them had gained useful ground together that Japan and Canada joined the EC-US discussions to make up the "quad" group.

Alas, whatever Brittan's merits, his home country would look to have little hope of securing the EC commission presidency for him even if further trade talks in Geneva bring a successful end to the long-stalled Uruguay Round.

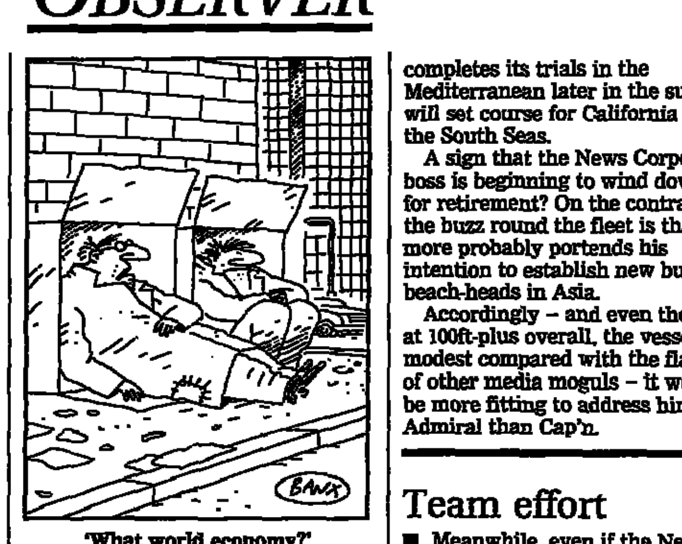
For one thing, it isn't all that long since the UK supplied the president: Roy – now Lord – Jenkins held the post in the late 1970s. For another, regardless of Premier Major's rhetoric about Britain being at the heart of Europe, London would find it hard if not impossible to win support for a Brit from "federalist" EC member states.

So the UK will probably concentrate on blocking any overtly "federal" candidate for the post. Hence former Belgian prime minister Wilfried Martens could expect a veto from London, as likewise might Felipe Gonzáles if he decides to abandon the Spanish premiership for Brussels.

From a UK viewpoint, the Netherlands premier Ruud Lubbers would be a more desirable candidate to replace the departing Delors. True, like most Dutch politicians, Lubbers believes in a federal future for Europe. But he is a free marketeer and, as such, stands well in John Major's esteem.

Bargain issue

■ Somewhat misunderstanding the recent reports that people wanting to adopt children may be charged £1,500 a time, a reader has called offering his five sons for instant sale.



'What world economy?'

Although they're a snip at the official going-rate, he says, anyone preferring a bulk deal could have them as a job lot for £7,000.

What's more, the youngest is only 27.

Flotation

■ As the New York Post sinks in the west, Rupert Murdoch is evidently preparing a new launch in the Pacific. Although he gave up keeping a yacht after moving from Australia to London, his move to sunny Los Angeles has set sea fever burning again.

The result is a custom built sailing boat which, if it successfully completes its trials in the Mediterranean later in the summer, will set course for California and the South Seas.

A sign that the News Corporation boss is beginning to wind down for retirement? On the contrary, the buzz round the fleet is that it more probably portends his intention to establish new business beach-heads in Asia.

Accordingly – and even though, at 100ft-plus overall, the vessel is modest compared with the flagships of other media moguls – it would be more fitting to address him as Admiral than Cap'n.

Team effort

■ Meanwhile, even if the New York Post is bound for the breakers, perhaps Murdoch could at least prevent the Big Apple's favourite baseball club from transferring its flag to another city.

That is the fate being threatened for the New York Yankees by their tempestuous owner George Steinbrenner. And though he has mouthed menaces before, this time he seems deadly serious.

The Yankees' successes haven't stopped attendances from falling by more than a third these past five years, which Steinbrenner blames partly on the rundown stadium, nicknamed the Bronx zoo after its site in one of the poorest districts around. Put bluntly, his ultimatum is that either New York helps to rebuild the stadium, or the team will leave for financially friendlier climes.

Understandably, being desperate to revive the impoverished South Bronx, New York's governor Mario Cuomo wants the Yankees to stay put. But if Steinbrenner insists on moving when his lease expires, then Cuomo would like to set up the club up on a 30-acre site west of midtown Manhattan.

In which case, it is hoped, Murdoch might be tempted to finance the building of a new home for the Yankees as part of a huge new entertainment complex. After all, while the plan sounds mightily expensive, it is of a scale to match his far from under-developed ego, not to mention those of Cuomo and Steinbrenner to boot.

The three of them have already had a preliminary discussion, Observer hears.

Pint taken

■ Even if Manchester's bid to host the Olympics fails owing to lack of sun, the local nightlife is clearly bidding for intellectual acclaim.

In September, Manchester's Institute for Popular Culture is hosting two days of egg-head discussions on the economic impact of the evening economy of cities, in which the star attraction will be a chance to "experience Manchester's night-time economy at first hand".

Do they mean a pub crawl, by any chance?

FINANCIAL TIMES
Monday July 12 1993

Germany suggests EC funds for French farms

By Peter Norman, Economics Editor, in London

GERMANY has suggested channelling European Community funds to French farmers to win France's support for an agreement cutting farm subsidies in the Uruguay Round of trade liberalisation talks.

The suggestion came in advance of today's resumption of the long dormant Uruguay Round of talks in Geneva, at which negotiators from the so-called Quad countries – the US, the European Community, Japan and Canada – will brief trading partners on their tariff-cutting deal reached at last week's Group of Seven summit in Tokyo.

Mr Günter Rexrodt, the German economics minister, said at the Tokyo meeting that financial concessions could play an important role in winning "one European Community partner" for an agreement on agricultural trade.

The German minister did not name France in his remarks to journalists. However, French objections are holding up an EC-US agreement on reducing subsidies in agricultural trade that could form the basis of further international negotiations under the auspices of the General Agreement on Tariffs and Trade.

Mr Rexrodt said he considered that farm trade problems would prove to be the "sticking point" in reaching a final pact on global trade liberalisation and that the most important issue was working out how much subsidised farm produce could be exported by the EC and the US.

He believed that problems of agricultural trade could be dealt with through a financial agreement that would enable "an EC partner country" to overcome structural and regional problems more easily than at present.

He admitted, however, that there would be less money available for other EC countries if Community funds were used to compensate farmers in one state for any losses arising from a deal on farm trade in the context of the Uruguay Round.

The individual EC countries do not negotiate in the Uruguay Round – that task is left to the European Commission. But Mr Rexrodt stressed that he was close to the talks, partly because Mr Mickey Kantor, the US trade representative, had approached the German government before to mediate in disputes between the US and France.

US-Japan trade deal, Page 4

Nadir strengthens links with government of north Cyprus

By John Murray Brown in Istanbul

MR ASIL NADIR, the fugitive businessman, was due to meet with north Cypriot president Rauf Denktash last night, for the first time since he fled the UK in May. The meeting comes amid further signs the island government is co-operating to block the efforts of the administrators to Polly Peck International, Mr Nadir's former company.

On Friday, the finance ministry announced that a pharmaceutical plant belonging to Polly Peck International, Mr Nadir's former company, would be auctioned to settle debts owed to the breakaway north Cypriot government. The government says it is owed TL43bn ($4m) in unpaid debts to the local social security agency.

The administrators were earlier close to concluding the sale of ICP, the drug company, and had convened a shareholders' meeting for July 27 in a move to replace Mr Nadir as a director.

Local lawyers say the government's latest action is seen as further collusion with Mr Nadir to frustrate the sales of the northern Cyprus assets – one of the last hopes of raising cash for the 23,000 PPI creditors, owed a total of £1.3bn ($2bn).

In London last week, in a move aimed at winning over the northern Cyprus authorities, Mr Christopher Morris of Touche Ross, one of the three court appointed administrators, formally apologised to the Turkish Cypriot central bank over allegations of fraud and money laundering in a suit against the bank and other plaintiffs in October 1991.

Mr Nadir, in a front page signed editorial in his Kibris newspaper, yesterday gave warm endorsement to the government in urging Turkish Cypriots to show solidarity against "threats and blackmail from outside". Mr Nadir also announced plans to launch another newspaper and a magazine, a further indication that he intends to resume his business activities on the island. Mr Nadir's newspaper has been strongly supportive of the government, and local officials say company money was reportedly used to buy votes in the last election in 1990.

The administrators were last week in discussions with the finance ministry in Nicosia, in the latest attempt to gain access to the local companies. Their efforts have been frustrated by court injunctions and a government freezing order on 27 companies connected to Mr Nadir.

As the biggest shareholder of ICP, the administrators are seeking to get around this by calling an extraordinary meeting for July 27 to replace Mr Nadir and other directors, as a first step to selling the company.

Last night Mr Nadir, the former chairman of Polly Peck International, was expected to meet both Mr Denktash and Mr Dervis Eroglu, the prime minister, at a party to celebrate the fifth anniversary of Kibris.

Reformers step up challenge to Italy's main party

By Haig Simonian in Milan

MR MARIO SEGNI, the popular leader of Italy's referendum movement, is expected to join forces with the cross-party Democratic Alliance movement this week in a union that could form the basis for a new, broad-based party capable of challenging the majority Christian Democrats for the political middle ground.

Mr Segni, who broke away from the Christian Democrats earlier this year, has been a leading advocate of political reform and clean government. The Democratic Alliance is a loose reformist movement set up by politicians who have left their parties in recent months in protest at corruption and obstacles to political reform.

Members include Mr Giorgio Ruffolo, the former Socialist environment minister, and Mr Giuseppe Ayala, previously a leading anti-Mafia judge and now a Republican MP.

Delegates at the Alliance's national convention in Florence on Saturday were read a message from Mr Segni suggesting the movement should now move towards transforming itself into an official political party. His message came as tension increased within the Christian Democrat party, which has been discredited by the corruption scandal.

Ms Rosi Bindi, a regional party leader who has spearheaded calls for reform, proposed at the weekend to make the party's Veneto region the testbed for change. Addressing a conference in the spa town of Abano, Ms Bindi proposed changing the party's name and adopting a reformist programme.

Her demands come just a fortnight before a crucial Christian Democrat national convention, which may mark the party's last chance to agree on changes, possibly including a new name, before others follow Mr Segni's example. The party could break up if reform does not come quickly.

Pressure on the Christian Democrats to distance themselves from the corruption scandal has been reinforced by the strength of the federalist Lombard League. At its annual meeting in Pontida, near Bergamo, Mr Umberto Bossi, the League's leader, yesterday threatened to declare a tax strike if President Oscar Luigi Scalfaro did not call a general election after parliamentary approval of the 1994 budget later this year.

Mr Carlo Azeglio Ciampi, prime minister, met senior cabinet colleagues yesterday to discuss the government's budget plans for 1994-96.

Next year's budget is expected to contain measures, mainly spending cuts, to reduce the estimated L180,000bn ($117bn) budget deficit by between L35,000bn and L40,000bn next year.

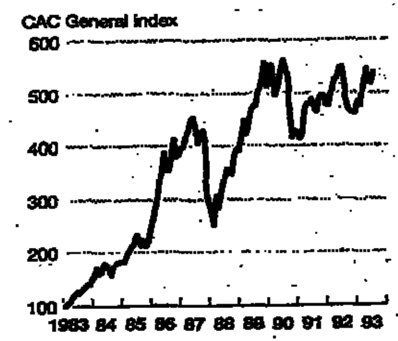
THE LEX COLUMN

Prudential regulation

Mr Mick Newmarch of the Prudential has made no secret of his implacable opposition to the Personal Investment Authority, the proposed self-regulatory body for retail financial services. The freedom of investment firms to choose their regulator is enshrined in the Financial Services Act, so the threat of a boycott is by no means idle. Without the willing participation of the country's biggest life insurer, the PIA would lack credibility. Since Mr Andrew Large of the Securities and Investments Board has made the PIA's success a cornerstone of his crusade to make the two-tier regulatory system work, the stakes are high.

Others in the industry have chosen a more pragmatic approach: since the government is unwilling to introduce new legislation, the best chance of avoiding an embarrassing public row is to make the best of the existing system by signing up with the PIA. But it remains uncertain whether the PIA will deliver an adequate standard of regulation. Even full transparency on sales commissions for life assurance might not weed out sharp practice. Mr Newmarch is surely correct to say that a regulator capable of banning inadequate savings products and over-enthusiastic sales methods may yet be required.

It is unlikely that the PIA – even with the participation of all comers – could fulfil such a role. Without statutory backing and an independent cast, the conflicts of interest would be great. It is a gamble, but if Mr Newmarch's opposition forces the government to look again at the question of legislation he will be doing the financial community a service.



Source: FT Graphite

French privatisation

With western European governments vying to raise up to $150bn (£101.4bn) by selling corporate assets over the next five years, France seems well placed to steal the biggest slice of the privatisation gateau. The French government may realise FFr360bn (£41.5bn) from selling off 21 companies on its initial list. This will help tame its budget deficit. It will also have wider economic significance: expanding the Paris stock market by as much as one-fifth; swelling the ranks of private shareholders; and sharpening the competitiveness of corporate France.

Some companies on the list, such as Elf Aquitaine, are well known quoted businesses which should easily attract investors. The Paris market has been starved of good quality industrial stocks. The government, though, may face a stiffer challenge in selling others, such as Air France and Bull, which require extensive restructuring. Moreover, recent opinion polls suggest the public is lukewarm about the programme. This is hardly surprising after the unhappy experiences surrounding the first wave of privatisation. Having been seduced into buying shares in 1986, investors watched the market crash the following year. Since then, most have reverted to high interest money market funds.

The government, though, has been devising schemes to rekindle enthusiasm for equities. Tax breaks, free shares and higher dividends for loyal shareholders are some of the latest wheezes. The FFr40bn Balladur bond, convertible into shares in privatised stocks, provides a further ingenious enticement.

The critical determinant of privatisation's success, however, may be the scale of foreign involvement. Despite the irritations of French companies' shareholding structures, international investors seem tempted. This largely reflects the belief that the government cannot afford privatisation to fail. The hope is that the best assets will be sold first at attractive prices. The conservative government certainly needs tangible successes before the presidential elections in 1995. Hemmed in by the big budget deficit, the strong franc and a commitment to fiscal austerity, the government will rely heavily on privatisation proceeds to help stimulate the fast fading economy. The need to tackle unemployment is a political imperative. Ironically, unemployment may worsen as companies heading for privatisation slim down their workforces.

The precarious state of the economy will remain the greatest worry. Sanguine investors may believe recession will enable them to invest at the bottom of the cycle. The majority, though, will surely be deterred by the dismal outlook for corporate earnings. Given the pressures, the French government must be sorely tempted to sell its soul and permit the franc's devaluation. Such a Faustian compact would be the balm for almost all its short-term ills. Falling interest rates, a surging stock market and renascent industrial competitiveness would provide the perfect backdrop for the flotation of privatisation issues. If last week's market pressures develop, the government's resolve may be fiercely tested once again.

Scottish Water

The government's proposals for Scottish water suggest it has come round to the view that the sledge hammer of privatisation is not required to crack the public spending nut. Scotland's three new water authorities will remain in public sector control, but with powers to attract private capital. That will conveniently remove up to £5bn from the public sector borrowing requirement over the next decade with less risk of opprobrium from voters north of the border. Since only 1 per cent of respondents to last year's consultation paper were in favour of privatisation, a compromise was always on the cards.

On what terms private sector capital will be invited to participate remains an open question. The new authorities might offer three big, long-term operating contracts – on the French model – or a series of smaller contracts for building and operating individual plants. Either way, the private sector will be responsible for providing capital as well as manpower. The bigger water companies may thus enjoy some competitive advantage by dint of their lower average cost of funds. The French giants Lyonnaise and Générale des Eaux will doubtless jostle for position near the front of the queue.

Since English water companies are anxious for unregulated earnings, the likes of North West and Thames cannot be ruled out of the running. Building a water treatment plant in Strathclyde may be viewed in much the same light as processing sewage in Kuala Lumpur, only rather less risky. The return they are prepared to accept under such competitive conditions will be a telling pointer to whether the English regulator has kept them on a tight enough rein.

Visa service

Continued from Page 1

days, but would guarantee a six-day transfer. He said it would also guarantee a clear quotation of charges and exchange rates at the start.

Royal Bank of Scotland is planning a corporate launch of its Ibos transfer system run with Credit Commercial de France, Banco Santander in Spain and Banco de Commercio e Induistria in Portugal. Ibos offers virtually instant transfer.

National Westminster Bank is also thought to be working on a new cross-border payment system with Société General of France and Commerzbank of Germany.

Bosnian federation plan

Continued from Page 1

republic along ethnic lines despite the urging for an agreement from international peace mediators Lord Owen and Thorvald Stoltenberg or face disaster in the winter.

Mrs Sadako Ogata, United Nations High Commissioner for Refugees (UNHCR) said the Bosnian operation was running out of money and called for a conference in Geneva on Friday to discuss the considerable problems impeding the relief effort.

While she did not say that the UNHCR would pull out of Bosnia, she accused all three sides of sabotaging the relief operation.

"Every day is quite a difficult day to decide or to know what we can do," she told BBC radio, adding that money supplies would last only for the next three weeks. Mrs Ogata's remarks came as water supplies dipped dangerously low in Sarajevo. The Bosnian capital has no electricity, oil or gas.

Meanwhile, hospitalised opposition leader Vuk Draskovic was recuperating at the weekend after he abandoned his hunger strike. Fearing mass unrest if Mr Draskovic died, Serbian president Slobodan Milosevic on Friday ordered the pardon of the opposition politician and his wife, Danica, who were arrested during violent anti-government protests on June 1.

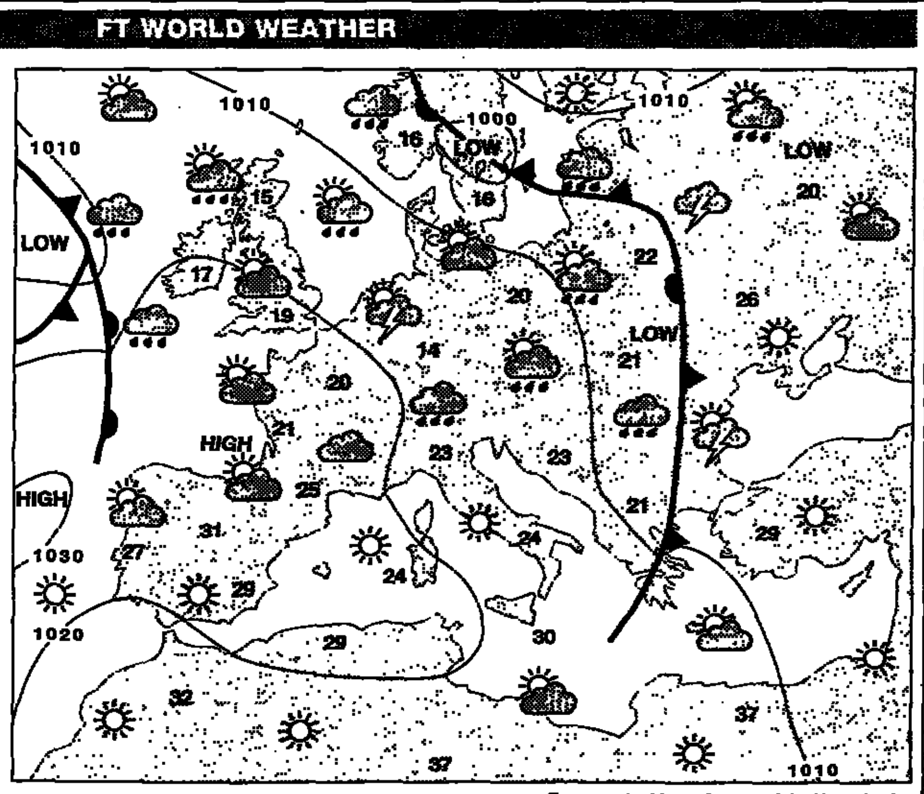
FT WORLD WEATHER

Europe today

A frontal zone will cause rain over southern Scandinavia, western Russia and Romania. Ahead of the front, it will be sunny in southern Russia and Turkey. Over northern Scandinavia, it will be mainly cloudy, but dry.
Showers, locally with thunder, will develop over Germany, Poland and the Alps. Over the Low Countries and England there will be sunny spells, but in Ireland, it will be mainly cloudy with some rain later.
Temperatures will remain rather low for this time of the year over the north-west of Europe. Over Greece, there will be some clouds, but elsewhere in southern Europe, it will be sunny and temperatures will rise to 25C-31C.

Five-day forecast

Depressions will move from the British Isles to the north-west of the Continent and this will bring a fair amount of rain to the UK and the Low Countries. The temperature will slowly rise to more seasonable levels.
In southern Scandinavia a local shower will form.
Thundery showers will develop over central and eastern Europe from Wednesday on. Also, Italy will have some showers. Over Spain and Portugal, it will be mainly sunny and temperatures will reach 39C.



Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	sun	39
Accra	thund	27
Algiers	sun	29
Amsterdam	fair	16
Athens	fair	36
Bangkok	cloudy	34
Barcelona	sun	24
Beijing	rain	28
Belfast	cloudy	17
Belgrade	cloudy	21
Berlin	shower	19
Bermuda	shower	30
Birmingham	fair	18
Bogota	shower	18
Bombay	cloudy	31
Bordeaux	fair	22
Brussels	fair	17
Budapest	shower	22
Buenos Aires	cloudy	10
Cairo	sun	37
Cape Town	fair	16
Caracas	cloudy	28
Chicago	sun	28
Cologne	thund	17
Copenhagen	cloudy	18
D' Salaam	shower	27
Dakar	fair	30
Dallas	fair	36
Darwin	fair	30
Delhi	rain	31
Dubai	sun	41
Dublin	cloudy	18
Dubrovnik	fair	27
Edinburgh	shower	16
Faro	sun	30
Frankfurt	shower	19
Geneva	rain	16
Glasgow	fair	18
Hamburg	shower	16
Helsinki	sun	22
Hong Kong	shower	32
Honolulu	fair	31
Isle of Man	fair	16
Istanbul	fair	31
Jersey	fair	17
Karachi	cloudy	33
Kuwait	sun	46
La Paz	shower	16
Las Palmas	sun	26
Lisbon	fair	28
London	fair	19
Los Angeles	hazy	25
Luxembourg	shower	17
Lyon	cloudy	17
Madeira	sun	24
Madrid	sun	31
Majorca	sun	28
Malta	sun	30
Manchester	fair	17
Manila	cloudy	33
Melbourne	shower	15
Mexico City	shower	20
Miami	fair	33
Milan	fair	23
Montreal	fair	27
Moscow	shower	21
Munich	thund	17
Nairobi	fair	26
Naples	fair	24
Nassau	shower	32
New York	thund	34
Nice	fair	24
Nicosia	sun	35
Oslo	rain	16
Paris	fair	20
Perth	fair	15
Prague	shower	19
R' de Janeiro	rain	22
Rangoon	shower	30
Rekjavik	rain	14
Riyadh	sun	44
Rome	sun	26
S' Francisco	sun	22
Seoul	thund	27
Singapore	cloudy	31
Stockholm	rain	20
Strasbourg	shower	18
Sydney	fair	15
Tel Aviv	sun	33
Tokyo	shower	28
Toronto	fair	27
Tunis	sun	30
Vancouver	fair	21
Venice	fair	23
Vienna	shower	21
Warsaw	shower	19
Washington	thund	36
Wellington	fair	10
Winnipeg	fair	20
Zurich	rain	16

هكذا صدر الأصل

FINANCIAL TIMES
COMPANIES & MARKETS
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INSIDE

Prospective p/e ratio

The latest prospective p/e ratio for the FTA index of 500 industrial stocks for calendar 1993 is 14.5 according to IBES, the consensus estimates service (last week: 14.6). This compares with an IBES estimated p/e *for the "500" of 19.2 (19.4) for calendar 1992*. The official FT calculation of the historic p/e, based on the latest reported earnings, is 19.10 *(19.19)*.

Merck president resigns unexpectedly

By Martin Dickson in New York

MR Richard Markham, president of Merck & Company, the world's largest prescription drugs group, has resigned unexpectedly after seven months in the *post*.

The 42-year-old Mr Markham, who was also Merck's chief operating officer, was widely viewed as heir apparent to the company's chairman, Mr Roy Vagelos.

Merck said Mr Markham had left for "personal reasons" which he did not wish to spell out.

Mr Vagelos said: "While Mr Markham's departure is disappointing, one of Merck's strengths is the quality and depth *of its management team*." Those executives who reported directly to Mr Markham will now report to Mr Vagelos.

The upheaval at Merck follows the ousting in March of Dr Ernest Mario as chief executive and deputy chairman of Glaxo, Europe's largest drugs company, after apparent disagreements over management style and strategy.

The Merck announcement surprised Wall *Street* analysts who suggested there was nothing in the company's recent financial performance *to account* for Mr Markham's departure.

Mr Markham had spent more than two decades at Merck, becoming senior vice-president for Europe in 1989 and taking charge of the company's human health business worldwide in 1991.

The New Jersey-based company's share price has fallen sharply this year from the high $40s to close unchanged at $34¾ *last Friday. The resignation* announcement came after the market's close and Merck shares *may drop in reaction to the news* this morning.

Analysts have been cutting their earnings forecasts for the company in recent weeks amid concern that it will be unable to sustain its strong growth record.

The concerns are due partly to pressures from the Clinton administration for the drug industry to cut prices and partly *to doubts about the market* potential of one of its new products, *Proscar, a treatment for* enlarged prostates.

Merck, best known for anti-hy*pertensive and cardiovascular* drugs, reported net profits of $1.98bn, (£1.32m) or $2.12 a share for 1992, on sales of $9.7bn. Fourth quarter earnings rose 17 per cent on sales up 12 per cent.

Mr Markham is the second top executive of a major US drugs company to quit in the past few weeks. In late June, Mr Vaughn Bryson resigned as head of Eli *Lilly after boardroom disputes*.

Investors bullish on UK share outlook

By Christopher Price

A LARGE majority of institutional investors are more positive on UK equities over the next 12 months than on any other market, according to a survey published today.

The monthly Smith New Court/Gallup poll of fund managers *found 84 per cent bullish* over the outlook for UK equities compared with 67 per cent for Japan, 55 per cent for Europe and only 9 per cent for the US.

The finding reinforce other recent reports and come on top of a gathering momentum for a reduction in *domestic interest* rates. The London stock market firmed on Friday as rumours of *an imminent cut were boosted by* four of the City's leading broking firms' reducing their year-end forecasts. BZW, James Capel and SG Warburg moved from 6 to 5 per cent, with SG Strauss Turnbull also trimming its figures.

The Warburg strategy team suggested that with gilt yields declining and inflation indica*tors encouraging "it is hard to* be bearish from current levels" over the outlook for equities.

However, market strategists did strike one note of caution last week as suspicions grew that some of the big institutions were beginning to shift funds out of London and into Germany in anticipation of a cut in German rates as part of a support package *for the Franc*.

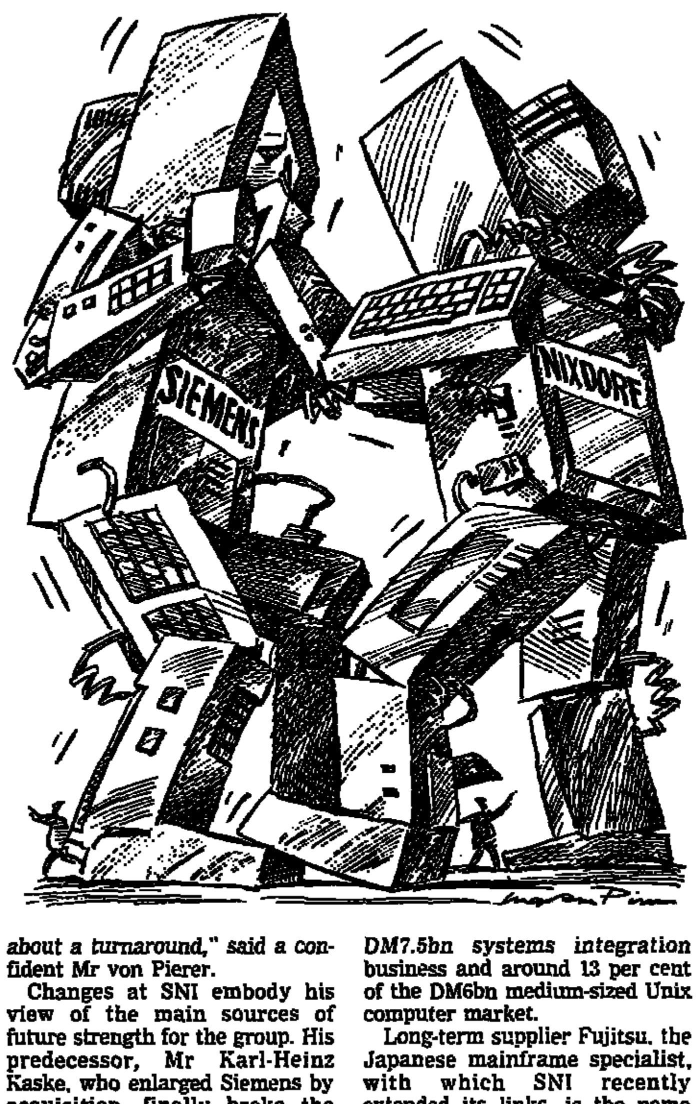
The latest Gallup survey found that a balance of 12 per cent of fund managers were planning to increase their exposure to UK equities over the period, compared with 23 per cent for Japan and 13 per cent for European equities.

However, a balance of 30 per cent of fund managers were planning to cut their exposure to the US market. Among the preferred sectors in the UK market were general engineering, banks and health and household. Property also *fared well*, with a balance of 23 per cent of fund managers planning to increase their investment. The least favoured areas were in contracting and construction, oil and gas and food manufacturing.

However, many fund managers remain nervous about the pace of recovery in the UK economy. Only 17 per cent of respondents *believed the general economic* situation would improve over the next 12 months, down from 24 per cent in June and 35 per cent in May.

Christopher Parkes and Alan Cane examine the reasons for Siemens' tribulations in computers

German duo dances to different tunes



W*hen giants learn to* dance, a little flat-footedness is to be expected. But Siemens, Germany's leading electrical and electronics group, seems not to be an especially apt pupil.

It fell over its own feet with the 1989 *acquisition of Rolm from* IBM. It took almost four years to integrate it with its private telecommunications business because someone underestimated the fundamental differences between US and German telephone systems.

The judges are waiting watchfully to see how it copes with another transatlantic two-step. *Siemens, seeking a partner for its* Osram lighting subsidiary, paid GTE DM1bn last year for its North American Sylvania operation. Since Osram is Europe's number two lamp maker after Philips, buying continental Sylvania was ruled out on competition grounds.

Although no calamities are expected, critics wonder how fitting a pair the businesses make when, for example, vehicle lamp specifications vary so greatly between Europe and the US.

For the moment, however, the *main problem preoccupying* Mr Heinrich von Pierer, the new Siemens chairman, is the lumbering performance of Siemens Nixdorf Informationssysteme (SNI), an ill-matched merger arranged by Deutsche Bank in 1990.

The industrial logic appeared *plain enough*. Steady, tradition-based Siemens had 20 per cent of the German market for mainframe machines and *made* modest profits on equipment supplied mostly by Fujitsu of Japan. Livewire, entrepreneurial Nixdorf had flourished in the 1980s, winning 25 per cent *of the home market* for its mini-computers. It also came equipped with a strong software business.

Together, according to Deutsche Bank thinking, Germany had its own DM8bn-a-year internationally competitive computer *industry combining the best of* old and new, safe in the arms of one of the country's most stable *industrial* concerns.

Last week, almost three years after the merger, Mr von Pierer said he expected SNI's losses this year to match last year's deficit of DM513m (£202m). This will bring the cumulative loss since the company was formed to almost DM2bn. Unit personal computer sales had increased 50 per cent, he said, but price wars and currency losses had cost an estimated DM1bn.

The roots of SNI's difficulties lie in its dependence on *hardware sales and the* changed relationship between costs and revenues.

The gross profit on a mainframe used to be as much as 90 per cent, ample to pay for expensive sales forces and elaborate customer support, and still yield *a worthwhile profit. Today the* gross return is 60 per cent and falling. The comparable figure for mini-computers may be less than 40 per cent and below 20 per cent for PCs. Meanwhile, customers are turning away from mainframes and minis in favour of networks of PCs, which are more flexible and cheaper.

The first indications of these *problems* were apparent when SNI came into being. In its last year of independence, Nixdorf, having built up its workforce to almost 30,000 in the expectation of continued growth, *lost* DM1bn on sales of DM5.6bn as the boom petered out.

Recession, striking hard at mainframe sales, together with structural change in the industry and its markets, further compounded SNI's difficulties

It was only later, when orders went unbooked, sales went unbilled and losses grew, that Siemens came to appreciate that the new partners were dancing different steps to different tunes. The Siemens side chose to lead. The Nixdorf team, unaccustomed to *sluggish bureaucracies, found its* entrepreneurial spirit being squeezed out.

The fledgling SNI, already trying to adapt to change in the industry and to recession, was being riven internally by a clash of cultures.

Morale suffered as the parent applied rough and ready remedies to staunch the profits drain. *Already cut to around 47,000* from 52,000 at the time of the merger, the workforce is scheduled to drop to less than 40,000 by the end of 1995.

Only latterly has internal structural change come to the fore. Last October, for example, *the PC business was split, accord*ing to the current fashion, into three business units. PCs, high performance printers and systems integration are now separate profit centres. In April the process of subdivision was extended throughout the concern with the creation of four units responsible for products, and six more in charge of internal and external services – from procurement to maintenance.

"When I look at what has been achieved in the last few months alone, I am convinced we'll bring *about a turnaround," said a con*fident Mr von Pierer.

Changes at SNI embody his view of the main sources of future strength for the group. His predecessor, Mr Karl-Heinz Kaske, who enlarged Siemens by acquisition, finally broke the monolith *into* 17 operating divisions encompassing 300 activities. Within this frame, Mr von Pierer aims to create a network of individual profit centres, fostering the entrepreneurial spirit as he goes.

He expects SNI to be profitable within three years, when it will be ready for its next important development: a partner. His computer business may be relatively strong in Germany, but it has less than 2 per cent of the DM14bn-a-year European PC market, only marginally more of the *DM7.5bn systems integration* business and around 13 per cent of the DM6bn medium-sized Unix computer market.

Long-term supplier Fujitsu, the Japanese mainframe specialist, with which SNI recently extended its links, is the name which crops up most often.

Since Mr von Pierer insists that any relationship should be on equal terms, much depends on the success of the restructuring – and the speed at which recession unwinds – in restoring SNI to profit. Although he repeats with rising fervour that computers and information technology have a core role in the group, if the return *to the black is too long* delayed, even he may come to agree with the critics who say Siemens would dance far better with one less leg.

Economics Notebook

By Emma Tucker

A test of faith in the UK's recovery creed

In the last few weeks a malaise has settled over the UK financial markets. Anxiety is growing that even the cautious faith in a sustainable recovery expressed by Mr Kenneth *Clarke, the new* Chancellor, may be too optimistic.

The fear among a number of economists and investors is that the promising indicators of the first quarter reflected a one-off boost from sterling's devaluation and lower interest rates *rather* than a sustained improvement in the economy.

Even if the UK does not drift back into recession, *expectations* are mounting that once the optimism of the spring dies down, there will be little recovery left to speak of.

The unease has been picked up in the UK money markets. The December sterling futures *contract is pricing in* another base rate cut by the end of the year, and it is harder to find City economists supporting the view that interest rates have hit bottom at 6 per cent than it was a few months ago.

Last week, SG Warburg Securities, which for some time has been relatively bullish about growth, joined the crowd in *forecasting* that the Chancellor was likely to cut rates to 5 per cent by the end of the year.

Mr Peter Warburton, chief economist at Robert Fleming, sums up the general concern: "The buoyancy of consumer *purchases of cars*, household goods and leisure items in the first quarter bears the hallmarks of a temporary spending binge rather than the begin*ning of a sustained* trend."

What, then, lay behind the strong growth of the first three *months of the* year if it did not reflect a solid, underlying improvement? Mr Bill Martin, economist at UBS, says there was a one-off surge in con*sumption* provoked by keen high street pricing and better terms on hire purchase agreements after the interest rate cut. *Stock-building* may also have provided a short-term boost to output and there was an upsurge in confidence after the rate cut.

But these factors will not be enough to sustain the sparkle of the first quarter through the rest of the year, *say the gloom*ier economists.

In a recent report, Professor Wynne Godley, one of the Treasury's outside advisers known as the seven wise men, says: "With a severe recession developing in Europe and with *inadequate* capacity in tradeable goods and services, the growth of net export demand over the next few years will not, *on present policies*, be any faster in the future than in the past." The upshot, he says, is that "it will not be *possible to* achieve sustainable growth *fast* enough to reduce unemployment by any significant amount over the next four or five years."

The worries of Prof Godley and economists such as Mr Martin focus on:

- The overhang of debt. Pro*fessor Godley* believes that with household debt still around 100 per cent of the annual flow of disposable income, personal saving is *likely to* stay very high.

Survey evidence backs up the fear that consumer spending remains constrained by deteriorating personal *finances*. Last week, the con*sultancy Business Strategies* Limited reported a rise in the proportion of people falling into debt, particularly in the south-east.

On the corporate side, the big overhang of excess capacity in many sectors, together *with weakened balance sheets*, is checking investment.

- Tax increases next year and a squeeze *on real disposable* income. Even the more bullish economists fear that next April's tax increases will sharply reduce consumer spending.

Mr David Smith, economist at Williams de Broë, expects growth to be buoyant this year, but warns: "I am much more concerned that next year will be very disappointing *because of the tax increases*." He adds that the prospect of further tax rises will dwell at the back *of people's minds so* long as the budget deficit remains as high as it is.

Meanwhile, consumers face a squeeze on real incomes as the *rise in average earnings* continues to slow.

- European recession. Sluggish growth in Europe has been singled out by the Organi*sation for* Co-operation and Development as a significant drag on growth in the UK. Even the competitive gains of devaluation may not be *enough* to sustain exports as the UK's main markets slide into recession.
- Credit controls. Professor *Godley points out that in previ*ous recoveries there has been some sort of relaxation of credit regulations which has given an underlying boost to demand. This recovery will not benefit from such a move and caution among banks will act as a further hindrance to recovery.

Not everyone is as gloomy about medium-term prospects. Mr Tim Congdon, another of the seven wise men, says in the Treasury report: "It is already clear that the main macroeconomic figures for this year will be the best since the late 1980s."

He says bright economic *prospects can* be explained by the large amount of excess capacity as a result of reduced output during the recession. This, he argues, will allow for strong non-inflationary growth.

Other City economists take a similarly bullish view. "A lot of the negative factors can be off-set by the lower exchange *rate and lower interest rates* and there is a feeling that we are near the trough in Europe anyway," says Mr Paul Turnbull, at Smith New Court.

The economy is now poised between sliding back into unspectacular growth or continuing with the gains already made this year.

If the economic figures *expected over the next two* weeks are bad, the chancellor may be tempted to cut interest rates again. But he will need to keep an eye on the level of the pound. Since its *recent rise* partly reflects optimism about the UK recovery, a run of weaker figures may push the currency back down. In this case, Mr Clarke will have to decide whether to cut interest rates while the pound is weak, or whether to cling to base rates of 6 per cent in the hope that conditions for a strong upturn really are already in place.

Debt talks set to resume at O&Y USA

By Bernard Simon in Toronto

OLYMPIA & York USA is close to resuming debt-relief talks with creditors after reaching agreement on a number of disputes relating to it's board of directors and other issues of corporate governance.

Negotiations to restructure O&Y USA's US$5.3bn debt *have been at a standstill since* March following disagreements between the company and its Canadian parent, Olympia & York Developments (OYDL).

The Reichmann family, which retained a 20 per cent interest in O&Y USA in the restructuring of OYDL earlier this year, also raised concerns *about the* possible dilution of their stake. Some minor points of disagreement remain between *the Reichmanns* and O&Y USA. But these are expected to be cleared up early this week.

The debt-restructuring talks are expected to drag on for at least six months. But the corporate-governance pact has *raised hopes the talks will suc*ceed without O&Y USA following its parent into bankruptcy protection.

The agreement gives O&Y USA substantial autonomy from OYDL, which is now under the control of a court-appointed administrator.

A new nine-person board will include Mr Willard Butcher, former president of Chase Manhattan Bank; Mr John Whitehead, co-chairman of Goldman Sachs; Mr Richard Ravitch, a prominent New Yorker; and Mr William Davis, former premier of Ontario.

Final Cray bonus tranche likely

By Paul Taylor

THE FINAL tranche of a share-option based incentive bonus package, worth in total between £25m and £35m, for the former chairman and three senior directors of Cray Electronics, is likely to be triggered tomorrow when the group announces its 1992-93 results.

The complex three-part bonus package was approved by Cray shareholders in December 1989 when a new management team led by Sir Peter Michael, the former chairman of UEI, was installed after the company was widely criticised for its accounting policies and forced to revise its profits downwards.

The four beneficiaries of the scheme are Sir Peter, who stepped down as chairman at the start of last month, his successor, Mr Roger Holland, Mr Jeff Harrison, finance director, and Mr Jon Richards, group managing director.

Under the terms of the scheme, devised by SG Warburg, Cray's financial adviser, the four executives were entitled to subscribe for cut-price deferred convertible shares and deferred redeemable shares, depending on the group's share price and its financial performance measured by earnings per share.

The share price has risen sharply over 12 months, closing at 161p on Friday, and results, boosted by disposals and timely acquisitions, have bounced back from a £2.79m pre-tax loss in 1989-90 to pre-tax profit of £3.5m in 1991-92.

As a result the pre-conditions triggering the first two tranches of the incentive scheme have already been met. The size and value of the third tranche of share options depends upon the level of earnings in the year to April 30, and the share price at the time of conversion.

The potential value of the share option incentive scheme raised some eyebrows at the time – one analyst said he was staggered by its size. However it was defended by Sir Peter who said the incentive was "fair for a very difficult job," given the risks.

10% of ITV companies held by US institutions

By Raymond Snoddy

US INSTITUTIONS hold a stake of around 10 per cent in the ITV companies, according to a new survey of who owns what in the UK's commercial television sector.

The biggest individual investor is Chase with significant stakes in Central, London Weekend Television and Scottish. Fidelity, is the second largest US holder in ITV, owning more than 3 per cent of the stand alone ITV companies.

The other two main US investors are Wearburg Pincus with an 8.31 per cent stake in LWT and Hanover Manufacturers which had 4.19 per cent also in LWT.

The extent of the US involvement is detailed in Citywatch, a new sharewatch service launched by Investor Communications & Research, part of London-based consultants GAH.

The Citywatch survey of institutional ownership in the ITV sector is the latest to be produced by GAH. The consultants have already researched areas such as the food, retailing and stores sectors.

The report shows that Mercury Asset Management is by far the largest individual investor in ITV accounting for a total of 8.69 per cent of the stand alone companies. It is strong in the companies which would be the main takeover targets if present rules are relaxed – Central, LWT, Scottish and Anglia. Prudential Portfolio Managers, the sector's second largest investor, is backing a similar range of companies.

Phillips & Drew Fund Management is also a significant player, but its largest investment is in HTV – a 23.04 per cent stake. The BBC pension fund is also an investor in ITV and holds a 3.83 per cent stake in Anglia Television.

Mr James Redhead, of GAH, said he saw the research as "a key defence tool" for ITV companies trying to ward off unwelcome predators. "It is also going to be of great value to foreign predators," he said.

Trevor Humphries

Cliveden to seek public listing

THE CLIVEDEN Group, which runs the Buckinghamshire country house as a hotel, (pictured above), is to seek a public listing after reversing into Ifico, a former insurance broker. The house and gardens were donated by the Astor family to the National Trust in 1942. Granted an 80-year lease by the NT, the Cliveden Group have spent some £12m refurbishing the house. The company achieved a 66.8 per cent occupancy rate and £207 a night average charge on the 31 bedrooms in the financial year to last October. It made an operating profit of £427,000 on turnover of £3.83m but reported a retained loss of £456,000. Ifico, which became a shell company after selling its insurance broking businesses in 1991, hopes to regain its listing once the transaction has been completed.

Europa poised to move back into the black

By Kenneth Gooding, Mining Correspondent

EUROPA MINERALS, the UK mining finance house which has been refinanced and restructured, broke even in the opening quarter.

And it will return to pre-tax profit for the first time since 1989 in the half year to July 30, said Sir David Hardy, chairman, at the annual meeting.

He would not forecast the full-year result and said Europa, which has gold and coal mining interests in Australia as well as drawing royalties from North Sea and Indonesian oil, had a long way to go before paying dividends.

Sir David confirmed that consideration was being given to a three-sided restructuring to pull together Europa and Austmin, the small Australian mining company which is Europa's main shareholder with 19.8 per cent, and Burmine, the Australian gold producer of which Europa holds 41.8 per cent.

This would result in a group with a market capital of about A$40m, quoted and with interests primarily in Australia but also with a London listing. This would "make it more simple for shareholders to see what they own."

But Sir David stressed that any restructuring would be very complex to work out, and was "an idea being explored, no more than that."

An 8 per cent stake in Europa, left with Australian sub-underwriters after a poorly-received rights issue of shares a year ago, was acquired recently by Mt Edon, another small Australian gold group backed by Swiss money.

Henry Ansbacher, the merchant bank which underwrote the issue, was left with 12.8 per cent of Europa. Mr Edward Schneider of Ansbacher said it was being treated as a long-term investment.

Gieves placing and open offer to raise £1.8m

HAVING BREACHED covenants on convertible loan stock and borrowing restrictions, Gieves Group is raising £1.8m net in a placing and open offer to remedy the situation.

The group, now operating as retailers and licensors and publishers, is placing 8.2m shares with USI Holdings group, which speaks for 5.1 per cent of the capital and all of the loan stock, and with Thistle Nominees on behalf of Mr George Ljutikov, a private investor holding 9.9 per cent of the capital.

Shareholders can claw back on the basis of 3-for-5 at 25p per share. USI will not request the immediate repayment of the loan stock in return for certain adjustments to the terms.

At the end of the year to January 31 1993 the loss retained in the business had risen from £3.8m to £4.75m. For the 12 months pre-tax deficit came to £1.41m (£1.51m), including exceptional charges of £1.34m (£1.71m).

The exceptionals were made up of £810,000 for the closure of the Gieves & Hawkes operation in Milan and two retail outlets in the UK, £471,000 for restructuring and reorganisation costs for Chivers' publishing divisions in the UK and US, and £63,000 for net property liabilities.

On top of that were extraordinary charges of £3.47m (£2.28m). These comprised £1.78m adjustment for goodwill previously written off against reserves, £998,000 provisions and asset write-offs principally for the Milan stores, £815,000 profit on the sale of Bookpoint, and £1.5m in respect of the crystallisation of contingent liabilities relating to Redwood Press.

In respect of the latter, the principal guaranteed parties have conditionally agreed to subscribe for 900,000 shares at 25p in part settlement of the amounts owed.

Banner Homes to buy BES companies

BANNER HOMES, the USM-quoted property trading and development group, is acquiring two BES housebuilding companies, Housebuilding Portfolio One and Housebuilding Portfolio Two, which it launched in 1990. Banner owns 10.7 per cent of their share capital and has managed them from inception.

Banner has also announced pre-tax profits of £255,000 for the year to March 31, compared with losses of £688,000. Turnover was slightly lower at £6.63m (£6.83m).

Had the two companies been part of the group as at March 31, they would have increased turnover by about 30 per cent. Their combined sales for the year were £1.81m and pre-tax profits £33,000. Net assets at March 31 amounted to £739,000.

Earnings per share came through at 2p (losses 3.9p).

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
ABN Amro (Netherlands)	Cragin Financial Corp (US)	Banking	£333m	Expanding Chicago presence
National Power (UK)	Transco Energy Ventures (US)	Power	£106m	Biggest overseas move yet
Sidlaw (UK)	Courtaulds Flexible Pckg (UK/France/Spain/Nethrlds)	Packaging	£79m	European strategy move
Cummins Engine (US)/ Telco (India)	Joint venture	Engineering	£33m	Investment in India growing
Otra (Netherlands)	SLO Tuottajain Kone (Finland)	Electrical wholesaling	£15.3m	Nokia refocussing move
National Express (UK)	Eurolines Nederland (Netherlands)	Transport	£1.43m	Cash deal
Nynex (US)	Stet Hellas Tele-communications (Greece)	Telecoms	n/a	Italy's Stet sells 20% stake
Snia Fibre (Italy)/ Rhone Poulenc (France)	Joint venture	Textiles	n/a	Sector restrctrng continues
AMIC (S Africa)/Daewoo (S Korea)	Daewoo-Amic (JV)	Consumer goods	n/a	SA market develpt venture
BOC Group (UK)	Hüls (Germany)	Gas distribution	n/a	Strategic cash deal

New outlets help Pelican rise to £908,000

By Catherine Milton

THE PELICAN Group of restaurants doubled pre-tax profits from £453,000 to £908,000 in the year to end-March, helped by the opening of eight new outlets.

Turnover rose to £8.08m (£6.32m), bolstered by the continued expansion of the Cafe Rouge chain, which now comprises a total of 14 open and two in development.

The group now operated 20 restaurants. Mr Roger Myers, chairman, said: "The Rouge concept still has great scope for expansion throughout the UK and we are actively looking for new sites." Last year saw rapid growth, with turnover, profit and overall development all reaching record levels.

Since the year-end Pelican had purchased the Yankee Noodle group of restaurants which brought with them Mr Robert Earl, who is behind the Planet Hollywood chain, as a non-executive director. At the same time the group raised £4m in a placing with clawback, for working capital and to clear gearing.

The Leadenhall Wine Bar and the Cafe Pelican made a reduced contribution because of the recession.

Interest payments fell to £345,000 (£409,000) reflecting the drop in UK interest rates. The dividend is increased to 1.1p (1p) out of earnings per share of 4p (3p).

NOTICE OF FINAL REDEMPTION

of All Outstanding

TOSCO INTERNATIONAL FINANCE N.V.

U.S.$50,000,000 - 8% Convertible Subordinated Debentures Due 1995
Redemption Date: August 13, 1993

NOTICE IS HEREBY GIVEN that, pursuant to the terms of the 8% Convertible Subordinated Debentures (the "Indenture") dated as of October 15, 1980, between Tosco International Finance N.V. (the "Company") and Morgan Guaranty Trust Company of New York, as Trustee (the "Trustee"), the Company has called for redemption and will redeem on August 13, 1993 (the "Redemption Date") all of its 8% Convertible Subordinated Debentures Due 1995 (the "Debentures") outstanding on the Redemption Date. As set forth in the Indenture, the redemption price will be U.S.$1,000 per U.S.$1,000 principal amount of Debentures to be redeemed plus U.S.$66.22 representing accrued interest from October 15, 1992 to the Redemption Date, for a total redemption price (the "Redemption Price") of U.S.$1,066.22. Payment will be made on or after the Redemption Date, after which the Debentures will cease to accrue interest.

To receive the Redemption Price for any Debentures, the holder thereof must present and surrender such Debentures, together with all unmatured coupons appertaining thereto maturing after the Redemption Date, to the Trustee or any of the Paying Agents at the addresses set forth below. The amount of any missing unmatured coupons will be deducted from the Redemption Price, or this deduction may be waived by the Company, the Guarantor and the Trustee if such security or indemnity is furnished to them as they may require. On or after the Redemption Date, payment will be made by check, drawn on, or by transfer to a United States dollar account maintained by the payee with a bank in the city of New York.

THE RIGHT TO CONVERT INTO COMMON STOCK OF TOSCO CORPORATION EXPIRES ON AUGUST 6, 1993

The Debentures are convertible at the Holders option at any time prior to the close of business on August 6, 1993 (the "Conversion Expiration Time") into shares of Common Stock, par value U.S.$.75 per share of Tosco Corporation (the "Common Stock"). Upon conversion, Holders would receive the number of shares that results from dividing the principal amount of Debentures held plus accrued interest through the date of conversion by the conversion price of U.S.$186.875. Each U.S.$1,000 principal amount of Debentures is, therefore, convertible into 5.3511705 shares of Common Stock plus additional shares (at the same price) representing accrued interest through the date of conversion. The number of such shares into which a Debenture may be converted shall be subject to adjustment in accordance with Article Eleven of the Indenture. In order to convert Debentures into shares of Common Stock, the Debentures must be presented and surrendered to the Trustee or conversion agents set forth below, accompanied by written notice of conversion substantially in the form set forth in Section 206 of the Indenture, executed by the Holder of such Debenture and with any transfer taxes payable pursuant to Section 1108. Such notice shall also state the name or names and addresses in which the certificate or certificates for the shares of Common Stock issuable or deliverable on such conversion shall be registered.

On June 11, 1993, the last reported sale price of shares of Common Stock on the New York Stock Exchange Composite Tape was U.S.$24.125 per share. Based on such sale price, the market value of the number of shares of Common Stock into which each U.S.$1,000 principal amount of Debentures (plus accrued interest through August 13, 1993) would have been convertible was U.S.$120.63 plus a cash payment of U.S.$17.02 in respect of a fraction of a share. Such value will be affected by changes in the market value of shares of Common Stock.

Presentation and surrender of the Debentures for redemption or conversion may be made at the offices of the Trustee, Morgan Guaranty Trust Company of New York, Attn: Corporate Trust Operations Department, Tellers and Mail Unit, 55 Exchange Place, Basement A, New York, New York 10260-0023 or at the main offices of the Paying Agents or Conversion Agents at Morgan Guaranty Trust Company of New York, Rue de la Regence 4, B-1000, Brussels; Mainzer Landstrasse 46, 6000 Frankfurt-am-Main 1; 60 Victoria Embankment, London, EC4Y 0JP; 14 Place Vendome, 75001, Paris and Stockerstrasse 38, 8022 Zurich; and at ABN AMRO Bank N.V., Vijzelstraat 79B, 1017 HL Amsterdam; Banque Paribas, 3 Rue d'Antin, 75002, Paris; Swiss Bank Corporation, 1, Aeschenvorstadt, CH-4002, Basle and Banque Generale du Luxembourg S.A., 27 Avenue Monterrey, Luxembourg.

In the event that Holders have any questions with respect to the procedures for conversion of their Debentures or surrendering their Debentures for redemption, please contact Mr. Wilkes McClave, Attorney-in-Fact, Tosco International Finance N.V. by telephone in the United States of America on (203) 977-1000.

TOSCO INTERNATIONAL FINANCE N.V.
By: Morgan Guaranty Trust Company of New York as Trustee

Dated: July 12, 1993

£90,000,000
BHH International Finance PLC
Guaranteed Secured Floating Rate Notes due 1995

For the period from July 8, 1993 to October 8, 1993 the Notes will carry an interest rate of 6⅜% per annum with an interest amount of £1,606.85 per £100,000 and of £16,068.49 per £1,000,000 Note.

The relevant interest payment date will be October 8, 1993.

Agent Bank:
Banque Paribas Luxembourg
Société Anonyme

UNION BANK OF FINLAND LTD
¥8,000,000,000
Floating Rate Notes
Due 1994

Interest rate	- 4.85% -
Interest period: from	- 11.7.1993
to	- 11.1.1994
Interest Amount per ¥50,000,000 nominal due 11.1.1994	- ¥1,222,466

Agent Bank
The Long-Term Credit Bank of Japan, Limited
Tokyo

Alcoa drops 21% as aluminium prices decline

By Martin Dickson in New York

Paul O'Neill: announced 25% cut in primary production

ALUMINUM Company of America, the world's biggest aluminium producer, has reported a 21 per cent drop in second-quarter net income before special charges.

The figures come against a backdrop of high world aluminium stocks and low prices, due to a a large increase of imports to the West from the former Soviet Union.

At the end of last month, Mr Paul O'Neill, chairman of Alcoa, announced that the company was cutting its annual primary production in the US by almost 25 per cent, and laying off 750 people.

The second-quarter figures, released on Friday, showed earnings of $44.7m, or 51 cents a share, before $9.4m of net unfavourable adjustments. Sales and operating revenues were little changed at $2.4bn.

The adjustments included a special charge of $23.8m after tax for job cuts; a charge of $11.9m for a new three-year labour agreement; and a $26.3m Australian tax credit.

In the second quarter of last year the company reported earnings of $56.5m, or 65 cents a share, before charges of $104.7m.

The company said prices on most products had declined from the same quarter of last year.

Revenues were level, in spite of a 5 per cent decline in aluminium shipments, because of increased sales in non-aluminium products.

For the first six months of the year Alcoa reported net income of $72.3m, or 82 cents a share, before adjustments, compared to $111.6m, or $1.29 a share, on the same basis in 1992.

Swissair wins strong terms on aircraft sale

By Ian Rodger in Zurich

SWISSAIR has sold six of its 23 MD-81 aircraft on very favourable terms, Mr Otto Loepfe, the Swiss national airline's chief executive, said yesterday.

No figures were given. Swissair is frequently in the used aircraft market and aims to keep a modern fleet. In the past two years, proceeds from sales have prevented the airline from making losses.

Mr Loepfe, speaking to the airline's annual managers' meeting in Zurich, said the Alcazar project, under which Swissair would join forces with KLM Royal Dutch Airlines, Scandinavian Airlines System and Austrian Airlines, was the best way forward for the company. It said a memorandum of agreement was expected to be signed by the airlines in September.

If the deal goes ahead, the four carriers would shed 10 per cent of their workforces, Mr Loepfe said. This would require Swissair to make some of its 25,800 staff redundant, but the workforce was falling by 5.3 per cent annually through natural attrition.

Bronfman empire makes further disposals

By Bernard Simon in Toronto

THE troubled business empire controlled by Toronto's Bronfman family is making further disposals, selling its controlling interest in Consumers Packaging, Canada's biggest glass container maker, as well as a 50 per cent stake in a British Columbia paper mill.

Consolidated Enfield, a Bronfman-controlled company, will receive C$9.7m (US$7.5m) for its 58 per cent stake in Consumers from the owners of Glenshaw Glass, a privately-held US glass maker based in Pittsburgh. Glenshaw has agreed to invest an unspecified amount in Consumers and to keep all its seven plants in operation.

Separately, Noranda Forest, which is also controlled by the Bronfmans, has sold its 50 per cent stake in Island Paper Mills, which makes coated and uncoated papers, to EB Eddy, a Canadian forest products group.

Eddy has bought the remaining 50 per cent from MacMillan Bloedel of Vancouver. Terms were not disclosed.

The purchase price for Consumers of 65 cents a share is less than half the current market price, and reflects the company's fragile financial condition.

Losses over the past five years have totalled C$229m, and Consumers is in default on a considerable portion of its bank debt and debentures. It is in the middle of a financial and business restructuring, which included the sale earlier this year of its plastics packaging interests.

Mr Brian Lawson, Enfield's president, said a fresh owner "committed to injecting new capital and providing strategic support" greatly improves Consumers prospects. The company has a market share of roughly 70 per cent, with 1992 sales of C$410m.

Consumers and Island Paper are the latest in a string of asset disposals by companies in the Bronfman orbit. Others sold this year include controlling interests in MacMillan Bloedel, the west coast forestry group; John Labatt, the beer and entertainment group; and Royal Trust, Canada's second-biggest trust and loan company.

The convoluted structure of the Bronfman group, which includes several private holding companies, makes it hard for outsiders to estimate the extent of its financial difficulties which led to the spate of asset sales.

Swiss banks lifted by first-half improvements

By Ian Rodger

FIRST-HALF results from three medium-sized Swiss banks underpin expectations of a banner year in prospect for the industry.

BZ Bank, the Zurich securities house headed by Mr Martin Ebner, reports first-half net income of SFr49.9m ($35.6m), not far from the SFr59.5m earned in the whole of last year.

It was the first time BZ, which is privately held, reported interim results and no comparative figures were given.

Last week, Banca del Gottardo, the Lugano based bank controlled by Japan's Sumitomo Bank, said cash flow rose 22 per cent to SFr61.4m in the first half.

While two weeks ago, Julius Baer, another Zurich banking group, said its first-half net profit was about SFr70m, slightly higher than the figure for the whole of last year.

Lower interest rates, a buoyant local stock market, big new inflows of investment funds and controlled costs are the factors contributing to these results.

The Swiss stock market's all-share index is up 22 per cent since the beginning of the year, enabling banks to make large gains in trading and commission income.

Baer said its trading income more than doubled in the first half, Gottardo said stock trading and new issue commission income was up 30 per cent while BZ's securities related income, at SFr50.9m, was 28 per cent above the figure for the whole of last year.

Baer, which specialises in asset management, said its commission income from this business was up 20 per cent. Also, clients' assets grew by about 10 per cent in the first six months and total SFr36bn.

Analysts said funds had been pouring into Switzerland this year, partly because of continuing turbulence in exchange rates in other European countries.

Mr Bernhard Tschanz, head of investment research at Credit Suisse, said Switzerland's decision last December to stay out of the European Economic Area helped.

Baer's net interest income gained 10 per cent, reflecting widening spreads as interest rates fell.

The big three Swiss universal banks, Union Bank of Switzerland, Swiss Bank Corporation and Credit Suisse, are the main beneficiaries of this trend, and they are all expected to report sharply higher first-half profits.

Most banks are benefiting from two years of aggressive internal cost cutting. Baer's expenses in the first half were up only 6 per cent while Gottardo's declined.

● Berliner Bank has acquired Deutsche Spar- und Kreditbank (DSK Bank) from DSK's sole shareholder, Mr August von Finck, the Munich-based investor, Reuter reports.

No terms were provided.

German press reports have recently estimated value on the deal at up to DM200m ($125m). DSK operations are focused on private customer business.

The bank has 25 branches, most of them in the Munich area.

DSK had 1992 net profits of DM7.03m. Its balance sheet total was DM2.03bn.

Akai loss widens to Y941m at half-way

By Michiyo Nakamoto in Tokyo

AKAI Electric, the Japanese maker of video and audio equipment, suffered a pre-tax loss of Y941m ($8.8m) in the half-year ended May 20, reflecting the continuing sluggish state of the consumer electronics market.

The loss, significantly larger than the Y623m deficit of the same period a year ago, came on sales of Y25bn, an increase of 2.2 per cent on the previous first half.

Sluggish sales of video cassette recorders, particularly in Europe where Akai has a strong foothold, the impact of the yen's rise and increased competition were blamed for the disappointing performance. Akai has an export ratio of 85 per cent and increased sales in all regions except Europe where they fell by 13 per cent.

Video equipment suffered a 4 per cent decline in sales while audio equipment saw sales grew by 27 per cent.

Akai forecast pre-tax losses would increase sharply in the year to November 20 because of the depressed market conditions and the yen's rise against the dollar this year.

It expects losses of Y1.3bn, compared with the previous Y247m. This will be the second straight year of losses for Akai, which had initially expected to post a pre-tax profit of Y200m in the current year.

The group hopes to combat the impact of the yen's rise with price rises, an increase in overseas production and in the procurement of parts from overseas. However, it believes sales of VCRs will continue to decline through the year.

Argentina sells energy group in three units

By John Barham in Buenos Aires

ARGENTINA has completed the privatisation of its principal energy companies with the sale of Hidronor, the country's principal hydroelectricity generator for $1.11bn.

The sale follows last month's successful flotation of YPF, the national oil company, and last year's privatisation of the federally-held gas and electricity companies. In just 15 months, Argentina's energy privatisations have raised more than $6.65bn.

The government split Hidronor into three parts, selling each as a separate unit. Three international consortia paid $474.6m in cash and took on a further $631.1m in financial liabilities from the government. Hidronor's dams have been transferred as 30-year concessions.

The sale last week of El Chocon, the largest of the dams, for $519.3m to a consortium led by Endesa of Chile, was particularly significant. Argentina and Chile have long been fierce rivals.

El Chocon is located close to the Chilean border in the southern Andes and is a large source of electricity for Argentina. Last year, Endesa acquired generating and distribution companies in greater Buenos Aires.

A consortium headed by Southern Electric of the US paid $393.5m for the Alícura dam. Another consortium comprising Dominion Energy, also of the US, and Louis Dreyfus, the international commodity trader, paid $192.9m for the smaller Cerros Colorados dam.

NEWS IN BRIEF

Southern Union gas acquisition

WESTERN Resources of the US is to sell its Missouri natural gas properties and operations to Southern Union for about $360m, Reuter reports. Southern Union will fund the purchase through a debt offering and a rights issue of common stock.

The natural gas properties serve about 460,000 Missouri customers in areas including Kansas City, Joplin and St. Joseph.

The deal hinges on approvals from the Missouri Public Service Commission and other regulatory agencies, Western Resources said.

■ Bank of Bermuda Group has agreed to acquire the institutional trust business of Standard Chartered Bank's Equitor Group in Hong Kong and Singapore, increasing its Asia Pacific assets to about US$7bn, Reuter reports.

Standard Chartered Equitor has about US$3bn of institutional assets, and Bank of Bermuda has US$4bn in assets in the area, the bank said.

The acquisition raises total funds under administration to more than US$28bn from US$25bn, the bank said.

■ An initial public offering of shares in Woolworths the Australian retailer has closed heavily oversubscribed, Reuter reports. Woolworths offered 1bn shares at A$2.45 each. Investors applied for 2.67bn shares, more than 2¼ times the number available.

Domestic institutions applied for 875m shares, but were allocated 153m. Overseas institutions requested 772m shares. They got 40m.

Woolworths, which is not related to the US group Woolworth group, has allocated shares to 339,000 investors. That gives it the biggest shareholder base of any listed Australian company.

■ Saudi American Bank, which is 30 per cent owned by Citibank of the US, improved first-half net profits by 5.3 per cent to SR470.6m ($127.2m), compared with the year-earlier period, AP-DJ reports.

Operating income was little changed at SR465.5m. However, the bank recorded a SR5.1m surplus in debt recovery compared with a SR17m provision against bad debts a year earlier.

INTERNATIONAL CAPITAL MARKETS

UK GILTS

Prices climb despite lure of German bonds

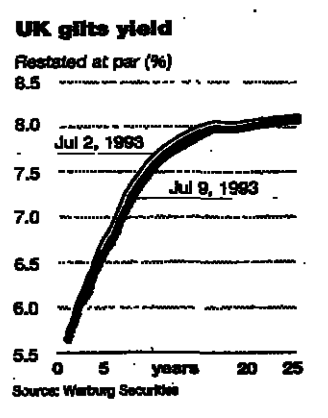
THE UK inflation optimists remain in the ascendancy. Gilt prices continued to climb last week in spite of the competing attractions of German government bonds which soared as investors re-appraised the outlook for the German economy and the D-Mark.

Ten-year gilts gained nearly a quarter of a point on the week, after a half point rise the week before.

Little happened to change the consensus view that inflationary pressures would be muted for some time.

That sentiment could be tested this week, which sees a spate of economic data including the latest numbers for unemployment and retail price inflation.

Even though senior officials at the Bank of England continue to sound warnings about the possibility of increased price pressures in the next few months, the balance of opinion in financial markets is shifting towards commentators such as



Professor Patrick Minford of Liverpool University who are claiming that inflation is dead.

According to Prof Minford, one of the Treasury's panel of seven outside economic advisers whose second report came out last week, recent changes in company behaviour and in the labour market have made the re-appearance of serious inflationary problems in the near future extremely unlikely.

He says he is "frustrated and depressed" that much of the mainstream UK economics community tends more to the official Bank line on inflation. According to Prof Minford, the UK economy is "straining at the leash" and could be capable of strong non-inflationary growth this year if the government were to loosen economic policy.

This could be done, he says, by a cut of 2 percentage points in interest rates by the end of the year to 4 per cent.

He also would like the Treasury and Bank to combat the generally upward drift by sterling.

Even though few in the gilts market are quite so sanguine about price pressures in the economy as the Liverpool professor, the broad direction of yield movements during the week lend his views some support.

The yield of the 8 per cent Treasury bond maturing in 2003 was quoted on Friday night at 7.51 per cent, 13 basis points down on the week and 50 basis points down over the past month.

It closed on Friday at a price of 103⅝.

The 10-year area of the gilt curve performed particularly well last week, with some selling at the short end as investors reckoned they might have over-reacted the week before to the possibility of a cut in UK base rates in the near future.

In generally quiet trading due to the absence of any significant UK economic data, gilts were largely unaffected by the strong move into German bunds during the week.

One gilts specialist said: "It reflects the strong support for gilts, particularly from non-UK institutions which see the securities as cheap."

Other strong buyers of gilts in recent weeks have included UK insurance companies, unit trusts and investment groups. Pension funds have been among the least enthusiastic buyers of the bonds.

Among the other members of the Treasury's economic panel, Mr Gavyn Davies of Goldman Sachs is less optimistic than Prof Minford about inflation. He is keen in particular to draw attention to the effects of the tax increases planned for next April which will push up prices for some goods and services.

Mr Davies reckons the government's favoured measure of underlying inflation – the year-on-year change in the retail prices index excluding mortgage payments – will push up close to the 4 per cent Treasury ceiling by the end of 1994.

In the year to last month, this measure of underlying inflation is thought likely to move to 3 per cent, from 2.8 per cent in the year to May.

The exact figure will be announced by the Central Statistical Office on Wednesday. The headline inflation rate – the retail price index by itself – is thought likely to come in at 1.5 per cent, after 1.3 per cent in the previous month.

Attention will also focus on the change in unemployment last month, which is reckoned to have shown a generally flat trend after the surprise of four successive monthly drops in the jobless figure.

Peter Marsh

DUTCH BONDS

Guilder's stability paves the way for 10-year yields

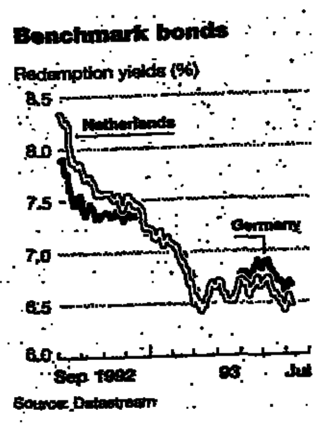
FOR the past 10 years or so the Dutch central bank has managed to maintain the guilder at virtual parity with the German currency. This policy has gained so much credibility with the money markets that the Dutch authorities barely have to lift a finger to get their currency back in line.

It is a situation that the Banque de France, forced to carry out large intervention at the start of the year when the franc was under heavy speculative pressure, and possibly facing the prospect again following the franc's slide last week, might envy.

It is a situation that has enabled the yield on 10-year benchmark Dutch bonds to be the only one within the European exchange rate mechanism to fall below the German equivalent for a sustained period.

Even after the enormous shifts of money back into Germany at the end of last week as international investors finally came to the conclusion that their pessimism over the outlook for the German economy might be overdone, the yield on Dutch government bonds of 10 years' maturity is still something like 10 basis points under the going rate in Germany.

The Netherlands has public borrowing requirement for this year of about Fl 42.4bn, a level which most analysts concede



to be in the region best described as comfortable. The capital funding has gone so well that the Treasury announced at the beginning of June that it had raised Fl 34.4bn in the market and there would be no more borrowing in the capital markets until September.

Many investors see the Netherlands as Germany without the burden of reunification. German inflation is running at 4.2 per cent compared with 2.1 per cent in the Netherlands.

However, the strong ties between the two countries are working to the disadvantage of the Netherlands. According to some Dutch economists, there is little likelihood of 10-year bond yields – one of the strongest indicators of long-term economic confidence – falling much further below that in Germany.

The Netherlands needs the market credibility that the link with Germany provides and, with 30 per cent of its exports going to Germany, it is inextricably tied to its neighbour.

Mr Arno Barens, European economist with F. Van Lanschot Bankiers, the Dutch commercial bank, believes: "The spread will reach parity by the end of the year; not so much because of the good performance of the German economy but more because of the close link between the two and the *arbitrage* opportunities that provides."

The Dutch central bank has been paring its short-term rates in order to maintain currency parity and although its floor rate, the official advances rate, is at 6.5 per cent against the German discount rate of 6.75 per cent, the "special advances rate", which is used as a fine tuning, mechanism is only just below at 6.7 per cent.

As Ms Ellen van der Gulik of the new Dutch merchant bank Mees Pierson says: "The markets realise that if you push the guilder up too much the central bank will punish them. Even if the whole ERM blew up and Germany had to get out the Netherlands would still stay with it."

Peter John

US MONEY AND CREDIT

Fears over inflation in sharp retreat

THE US credit markets are optimistic they are to receive good news on inflation this week, and that this will underpin the current record low yields at the long end of the bond market.

A raft of statistics to be released this week will give the markets much more to chew on than last week, when a lack of fresh economic data and holiday-shortened working week meant trading lacked a firm direction.

On Tuesday the market brushed off the biggest one-day gain in 13 years in the widely watched Commodity Research Bureau Index of commodity prices, which is often regarded as a harbinger of inflation.

For the rise was due mainly to flooding in the Mississippi River valley, sending grain and other agricultural commodity prices rising sharply, which economists agreed would have little inflationary consequences.

In thin trading ahead of this week's inflation reports, the price on the benchmark 30-year long bond managed to make a little progress, with the yield ending on Friday night at around 6.64 per cent, down from 6.66 per cent a week earlier.

Wall Street is expecting the overall producer price index for June, which will be released on Tuesday, to be flat to slightly down, while the consumer price index, due out on Wednesday, is forecast to be flat overall, with a 0.1 per cent to 0.2 per cent rise in its core rate.

That would mean producer price inflation running roughly at a 2.8 per cent annual rate since the start of the year, with consumer price inflation at around 3 per cent – far below the worrying levels recorded in the first four months of 1993.

Nor are there any significant inflationary clouds on the horizon.

Retail sales figures for June, due out on Wednesday, are expected to show a modest 0.3 per cent rise, with consumers still nervous about an economic recovery which seems fragile and growing in fits and starts.

A summary of the May meeting of the Federal Reserve's policy-making Open Market Committee, released last Friday, confirmed reports that it voted on that occasion to lean towards raising interest rates if inflation did not slow down.

The committee met again last week and, while the outcome of its discussions will not be known for some six weeks, the recent inflation figures should have made it more sanguine, though probably not sufficiently so to eliminate its bias towards tightening.

With inflation fears in sharp retreat, international developments may help underpin the bond market's rally.

Ms Susan Hering, an analyst at Salomon Brothers, points out that a modest revival in the dollar should increase the attraction of assets denominated in the US currency, while last week's unexpectedly successful trade talks at the Tokyo G7 summit "should dampen fears that increased protectionism will trigger higher inflation".

In spite of the bond market's generally buoyant tone, it still has to overcome an important political hurdle – efforts by the House of Representatives and the Senate to reach a compromise on their different versions of President Clinton's deficit reduction package.

Expectations that some compromise package will pass into law have underlain the market's rally since the start of June.

Many on Wall Street expect the measures will act as a substantial brake on the economy, and thus on inflation.

A particularly gloomy forecast came last week from Mr Philip Braverman, chief economist at DKB Securities, who argues that there are early signs of the US relapsing into recession later this year or in the first half of 1994, and that the Clinton package will accentuate the trend.

Martin Dickson

FT/ISMA INTERNATIONAL BOND SERVICE

U.S. DOLLAR STRAIGHTS	Issued	Bid price	Chg on week	Yield
Abb Intl Fin 8⅜ 96	200	103¾		4.80
Abbey Natl Treasury 6½ 03	1000	100¼		6.45
ABN 9¼ 94	200	105⅛		4.08
Aetna Life Cas 7¾ 16	200	99⅝	-⅛	7.81
AlbertaProvince 8⅜ 96	750	110⅜	-⅛	5.19
AlbertaProvince 9⅜ 95	600	110	-⅛	4.66
American Express 0 00	450	62⅛	+⅛	6.62
American General 9¾ 95	100	109	-¼	4.86
American Intl 0 04	750	48		6.84
Amoco Canada 7¾ 02	250	106¾		6.26
Asfinag 7¾ 02	200	107½	+⅛	6.22
Asian Dev Bank 0 04	1000	48¾		6.66
Asian Dev Bank 8 96	100	108⅛	+⅛	5.13
Australia 11 95	200	111½		4.49
Austria 7¾ 97	200	108⅝		5.06
Austria 8½ 00	400	114¾		5.79
Austria 9¼ 96	100	111⅞	+⅛	4.86
Bank of Tokyo 8⅜ 96	100	107⅞	-⅛	5.19
Banque Paribas 7¾ 98	100	105¼	-⅛	5.26
Barclays Jersey 10⅝ 95	250	113⅛	-⅛	4.78
BASF Fin Europe 7 99	200	105⅛	-⅛	5.97
Bayer USA 8¼ 96	150	108⅛	-⅛	5.32
Belgium 8 97	300	109½		5.03
Belgium 8¾ 98	400	113¾		5.40
Belgium 9.20 10	500	123⅝	+⅛	6.81
Belgium 9⅝ 98	250	117⅝	-⅛	5.50
BFCE 7¾ 97	150	108½		5.13
BFCE 9¼ 95	150	110¼	-⅛	4.57
BMW Leasing 7⅜ 96	200	106⅛		5.32
BNP 8⅝ 94	300	105⅛		3.63
Boots 9 97	175	111⅛	+¼	5.39
BP America 9¾ 99	250	116½		6.16
BPCA Finance 8⅝ 98	150	110⅞	-⅛	5.70
British Columbia 7¾ 02	500	109¼		6.36
British Gas 0 21	1500	11⅝	+⅛	7.90
British Telecom Fin 8¾ 99	200	114¼		5.89
British Telecom Fin 9⅜ 98	250	116½	-⅛	5.70
Caisse Francaise 6¼ 05	330	100⅛		6.23
Caisse Nat Energie 11¾ 95	125	111	-⅛	4.36
Canada 9 96	1000	110½	-⅛	4.65
Canada 10 95	500	112⅛	-⅛	4.46
Canadian Pacific 7½ 98	100	105¾		5.45
Cariplo 8¼ 98	200	109⅝	-¼	5.49
CCCE 8¾ 98	200	115¾		5.76
CCCE 9¼ 95	300	107¾	-⅛	4.24
Centrust Savings 0 10	1200	19¼	-⅛	10.43
Chubu Elec Power 8¼ 98	350	111¼	-¼	5.69
Chugoku Elec Power 7 97	250	105⅛		5.39
Cia Naviera Perez 9 96	100	99⅛	+⅛	9.52
Ciba-Geigy 6½ 97	200	105⅛	-⅛	5.17
Coca-Cola Amatil 7⅝ 98	175	107⅝		5.15
Comp Bancaire 7⅝ 97	500	108⅞	-⅛	5.60
Council Europe 8 98	100	108½	-⅛	4.95
Credit Foncier 9¼ 95	200	110⅝		4.46
Credit Foncier 9½ 99	300	118¾		5.61
Credit Local 8⅞ 98	250	115½		5.84
Credit Lyonnais 9 96	300	110⅝		5.05
Daimler-Benz NA 8 98	250	109⅜	-⅛	5.86
Denmark 0 98	250	76⅛		5.52
Denmark 5½ 97	500	101½		5.09
Denmark 5¾ 98	1000	101¾		5.31
Denmark 9¼ 95	1571	108	-⅛	4.25
Deutsche Bk Fin 9⅜ 98	200	118¼		6.04
DSL Bank 7½ 98	110	108½	-¼	4.95
DSM 8½ 96	150	108¾		5.23
Du Pont de Nemours 8½ 98	250	109⅛	-⅛	4.89
ECSC 8¼ 96	193	109⅜	-⅛	5.16
EEC 8¼ 96	100	108½	-⅛	5.07
EIB 7¾ 96	250	107⅞	-⅛	4.87
EIB 9¼ 97	1000	115⅛	-⅛	5.26
EIB 9½ 99	200	118⅝	+⅛	5.55
EIB 10 97	250	116⅜	-⅛	5.09
Eksportfinans 0 94	360	95⅛	+⅛	4.14
Eksportfinans 7⅞ 96	200	108¼	-⅛	5.17
Eksportfinans 8½ 95	200	106⅛	-⅛	4.32
Elec Corp N Zealand 9⅝ 96	200	111⅝	-⅛	5.15
Elec de France 9 98	200	114⅛		5.48
Elec de France 9½ 95	250	110½		4.42
Energie Beheer 9 95	300	109⅜		4.55
Ericsson LM 7⅞ 96	150	106½	-⅛	5.64
Euratom 7¾ 97	247	108⅛		5.15
Euro Cred Card Tst 9 94	325	105⅛	-⅛	4.70
Euro Cred Card Tst 9½ 95	845	109¼	-⅛	5.17
Eurofima 9¼ 96	100	111		4.75
Ex-Im Bank Japan 6¾ 00	400	105¼		5.78
Ex-Im Bank Japan 8 02	500	111⅞	+⅛	6.21
Export Dev Corp 8⅝ 00	200	114⅜		5.95
Export Dev Corp 9½ 98	150	116½	-⅛	5.63
Exxon Capital 0 04	1800	47⅞	-⅛	6.70
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Oster Kontrollbank 9 95	200	109⅛	-⅛	4.42
Petro-Canada 7¼ 96	200	105⅜	-⅛	5.07
Petrobras 10 96	200	98		11.86
Philip Morris 9⅞ 98	200	104⅞	-⅛	8.86
Procter Gamble 9½ 98	200	115	-⅛	5.68
Prudential Fin 8¼ 01	300	111		6.49
Prudential Rlty Secs 0 98	385	73¼	+⅛	5.90
Quebec Hydro 9 01	300	114⅜		6.54
Quebec Hydro 9¾ 98	150	116¼		6.02
Quebec Prov 9 98	200	112⅞	-⅛	5.92
Queensland Govt 10¼ 95	100	110¾	-⅛	4.74
Ralston Purina 11¾ 95	150	111	-⅛	5.20
Reed Publishing 9⅝ 97	150	114¼	-¼	5.55
Sainsbury 9⅛ 96	150	110⅝		5.44
Sandoz o/s Fin 6⅞ 00	300	103⅛		5.79
SAS 10 99	200	113⅛	-⅛	7.08
SAS 10⅛ 95	150	109⅝		5.66
SBAB 9½ 95	500	108⅝	-⅛	4.62
SBC Finance 7¾ 96	200	107⅞	-⅛	4.99
Sears Euro Trust 8¾ 96	750	108¾		5.25
Sears o/s Fin Zero 0 98	500	73⅛	+⅛	6.45
Sears Roebuck Euro 9¾ 95	500	108¼	-⅛	4.75
Skandinaviska Ensk 7⅞ 97	500	105		5.90
SNCF 9½ 98	150	117		5.53
Spain 6½ 99	1500	103½		6.81
State Bk NSW 8½ 96	200	109	-⅛	5.18
Sweden 5½ 95	2000	102⅛		4.53
Sweden 6½ 03	3000	101½		6.39
Sweden 9¼ 98	350	115⅛		5.45
Swedish Export 8¾ 96	700	108¾	-⅛	4.88
Thyssen Finance 7½ 99	200	105⅝		6.45
Tohoku Elec Power 7¾ 97	250	108⅛		5.31
Tokai Asia 11½ 95	100	111	-⅛	5.23
Tokyo Elec Power 8¾ 96	300	110¼	-⅛	4.94
Tokyo Metropolis 8¼ 96	200	109⅞		4.94
Tokyo Metropolis 9¼ 94	200	105	-⅛	3.89
Toyota Motor 5⅝ 98	1500	100⅝		5.46
Toyota Motor 6⅞ 97	1000	105⅝	-⅛	5.25
Toyota Motor Cred 8½ 94	200	104¾	-⅛	3.99
UBS Fin 9⅛ 02	225	117⅜	-⅛	6.42
Unilever Cap Corp 9¼ 00	400	117⅞		5.94
United Kingdom 7¼ 02	3000	107⅝	+⅛	6.15
Uruguay 8¾ 95	100	103		6.66
Venezuela 9¾ 98	150	103⅜	-⅜	8.47
Victorian Pub Auth 8⅝ 98	100	109		5.32
Warner-Lambert 8⅛ 96	100	107⅝	-¼	5.11
World Bank 8⅛ 01	1500	114⅛	+⅛	5.89
World Bank 8⅜ 99	1500	114½	+⅛	5.66
World Bank 8¾ 97	1500	112¾	-⅛	4.94
Xerox Corpn 8⅞ 96	100	107⅝	-¼	5.70
Yokohama 8 01	200	112	+⅛	6.12

DEUTSCHE MARK STRAIGHTS	Issued	Bid price	Chg on week	Yield
[illegible]				
Austria 5⅞ 97	500	98¾	+⅞	6.25
Belgium 7¾ 02	500	104⅜		7.01
Credit Foncier 7¾ 03	2000	102⅝	+1	6.84
Denmark 6½ 98	2000	99	+½	6.37
Deutsche Finance 7½ 95	1000	101⅞	+⅛	6.49
ECSC 8⅝ 98	700	106½	+¼	6.44
EEC 8½ 00	2900	99⅝	+⅜	6.52
EIB 7½ 99	400	104⅝	+¼	6.56
Finland 7½ 00	3000	103⅛	+1¼	6.88
Ireland 7¾ 02	500	104⅛	+¼	7.06
Italy 7¼ 98	5000	102½	+1	6.59
KfW Intl Finance 7¼ 97	1500	103½	+¾	6.40
Spain 7¾ 03	4000	102⅞	+1⅛	6.83
Sweden 8 97	2500	105⅛	+⅞	6.52
Tokyo Elec Power 7⅝ 02	1000	105	+1¼	6.87
United Kingdom 7⅛ 97	5500	102⅜	+⅛	6.39
World Bank 0 15	2000	22⅞	+⅜	6.79
World Bank 5¼ 96	300	99⅝	+¼	5.89
World Bank 8¾ 00	1250	111¾	+¾	6.54

SWISS FRANC STRAIGHTS	Issued	Bid price	Chg on week	Yield
Asian Dev Bank 6 10	100	107½		5.32
Council Europe 4¼ 98	250	101½		4.38
EIB 6¾ 04	300	112		5.30
Elec de France 7¼ 06	100	114½		5.60
Finland 7¼ 99	300	111½	-¼	5.05
General Motors 7½ 95	100	103	+½	5.82
Hyundai Motor Fin 8½ 97	100	109		5.99
Iceland 7⅜ 00	100	111½	+¼	5.61
Kobe 6⅝ 01	240	108¼	+¼	4.95
New Zealand 4⅞ 99	200	100¾	+¼	4.71
Ontario 6¼ 03	400	107	+¼	5.29
Quebec Hydro 5 08	100	96	+¾	5.40
SNCF 7 04	450	115¼	-¼	5.17
World Bank 5 03	150	101⅞	+½	4.78
World Bank 7 01	600	111¾	+⅛	5.10

YEN STRAIGHTS	Issued	Bid price	Chg on week	Yield
African Dev Bk 4¾ 97	40000	101¼		4.42
Asian Dev Bank 5 03	50000	101¾	+¼	4.76
Austria 5 01	75000	101⅝	+¼	4.73
Belgium 5 99	75000	101¾	+¼	4.67
Credit Local 7 96	30000	108⅞		3.76
Denmark 7 95	40000	105⅛		3.54
EIB 6⅝ 00	100000	110¾	+¼	4.71
EIB 6⅝ 01	50000	112⅛		4.85
Elec de France 5⅝ 96	20000	104¾	+⅛	4.05
Finland 6¾ 96	50000	106⅝	+⅛	4.11
Inter Amer Dev 7¼ 00	30000	114⅛	+⅛	4.76
Japan Dev Bk 5 99	100000	103	+¼	4.43
Japan Dev Bk 6½ 01	120000	111½	+⅛	4.77
KfW Intl Fin 6¼ 94	25000	103¾		3.57
Nippon Tel Tel 5⅞ 96	50000	105½	+⅛	3.59
Norway 5⅛ 95	50000	102½		3.60
Ontario 6¼ 98	50000	105⅞		4.26
Oster Kontrollbank 6½ 98	50000	108⅞	+⅛	4.54
Portugal 4⅞ 98	75000	100⅝	+⅛	4.71
SNCF 6¾ 00	30000	111¼	+⅝	4.73
Spain 5¾ 02	125000	104¼	+⅛	5.06
Sweden 5⅝ 95	20000	103¾	+⅛	3.82
Tokyo Elec Power 6 98	70000	106⅜		3.97
World Bank 6¾ 00	50000	111⅝	+⅛	4.68
World Bank 7¼ 95	45000	106½		3.45

LUXFR STRAIGHTS	Issued	Bid price	Chg on week	Yield
Arbed 7½ 95	600	99⅝		7.71
ECSC 7¾ 94	1000	100⅛		7.60
Gentinance Lux 9⅛ 99	1000	107¼		7.51
World Bank 8 96	1000	101½		7.37
[illegible]				
SNCF 9¼ 97	4000	108⅞	-¼	6.50

FLOATING RATE NOTES	Issued	Bid price	Chg on week	C.cpn
Alaska Housing 0.10 01	125	98.81		3.6625
Alliance Leics 0.08 94 £	300	99.89	+0.02	6.2875
Alliance Leics 0.10 95 £	150	99.84		6.1387
American Express Bk ⅛ 99	200	96.09		3.3750
Anglia ⅛ 98 £	100	99.97	-0.01	6.1875
ANZ Banking Perp 0.15	300	76.30	-0.10	3.4625
Austria -0.15 05 DM	700	98.11		7.3187
Banco Roma 0 99	200	99.36	+0.01	3.3438
Bank New York 1/16 97	200	99.77		5.2500
Bank of Greece ⅜ 99	250	97.91		3.6250
Bank of Montreal 0.05 98	250	97.63	-0.01	3.4875
BankAmerica ⅜ 95	500	100.05	+0.01	3.7812
Banque Indosuez ¼ 97	125	99.59		3.6250
Barclays o/s Inv ⅛ 04	350	100.01	+0.07	5.0000
Bayer Vereinsbk -⅛ 02	350	101.15	-0.03	5.0000
BBL Intl 0.05 01	200	94.28		3.4875
BCI 0.15 98	300	95.07	+0.03	3.5875
Belgium 0 94	200	99.87	-0.01	3.1875
Belgium 0 96	400	99.83		3.3125
Belgium 0 00 Ecu	300	99.00	+0.01	8.5625
Belgium 1/16 97 DM	500	100.04		8.0000
BFCE -0.02 96	350	99.74	-0.01	3.2500
Bilbao Intl 0.04 01	150	98.31	-0.01	3.4525
Birmingham Mid ⅛ 98 £	150	99.96	+0.01	6.0625
BNP ⅛ 95	400	101.53	-0.06	5.2500
Bradford Bingley ⅛ 98 £	100	99.48	+0.03	6.0625
Bristol West 1/16 94 £	150	99.73	+0.01	6.0625
Britannia 0.10 96 £	150	99.45	+0.02	6.2250
Cariplo ¼ 99	150	98.30	-0.02	3.6875
CCCE 0 06 Ecu	200	98.92		7.4844
Chase Manhattan ⅛ 09	400	97.25	+0.11	5.2500
Chase Manhattan 1/16 00	250	99.28	+0.02	5.0000
Citicorp 0.20 98	500	99.51		5.0000
Citizens Fed 0.15 96	100	99.57		5.0000
Comm Bk Australia perp 0.15	300	99.18		3.8500
Crediop 0 97 IKL	200000	102.35	+0.20	12.7500
Credit du Nord 1/16 97	100	99.33		5.2500
Credit Foncier -1/16 98	200	100.38		5.0000
Credit Lyonnais ⅛ 99	250	100.38	-0.01	5.2500
Denmark -⅛ 96	1000	99.38	+0.04	3.0625
Dresdner Finance 1/32 98 DM	1000	99.85		7.9438
EIB -¼ 01 Ecu	400	99.55		9.3828
Elec de France ⅛ 99	400	101.88	+0.12	5.2500
Ferro del Stat 1/16 97	420	99.11	+0.02	3.2875
Finland 0 97	1000	99.34	+0.06	3.4375
First Chicago ⅛ 96	125	98.56	+0.07	3.5000
Fleet Financial 0.10 98	100	95.76	+0.01	3.4125
Fuji Bank 0.35 00	700	97.84	+0.01	3.6016
Gracechurch Mort ½ 19 £	175	99.82	+0.01	6.2625
Halifax BS 1/16 95 £	350	99.90		6.1250
Halifax B 0.08 96 £	150	99.88		6.0175
Hessische Landesbk 0 98	100	99.25		3.3125
HK Shanghai perp ¼	400	81.32	-0.70	5.0000
ICO 0.05 97	450	99.85		3.5500
Investors Ind ⅛ 94 £	125	99.78		6.0825
[illegible]				

EQUITY WARRANTS	Expiry Date	Bid price	Chg on week	Prem
Asahi Glass	25/06/96	16⅝	+⅝	22.94
Canon	24/05/95	9½	+⅝	21.01
Dowa Mining	18/03/97	19⅛	+⅞	9.60
Hankyu Dept Stores	14/03/96	7½	-1	31.25
Hino Motors	08/07/94	⅞	+⅛	69.32
Kobe Steel	12/06/96	3¼	+¼	66.44
Mitsui Toatsu Chem	30/01/98	3½		
Morinaga	13/06/95	10⅝	-⅛	16.80
Nichirei Corp	11/09/98	18¼	+½	22.73
Nippon Comsys	31/01/95	12⅝	+1½	23.14
Nisshin Steel	18/04/96	3¾	+⅛	68.19
Okura	30/01/96	7¼	+1¼	25.59
Royal Hotel	14/03/95	1½	+⅛	89.82
SMC	25/07/95	4⅝		73.83
Takashimaya	02/07/96	7⅝	-½	27.84
Toyo Sash	05/08/97	7⅞	+⅛	85.62

[illegible]

STRAIGHT BONDS: Yield to redemption of the bid-price. Amount issued is expressed in millions of currency units.
FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate for US dollars. C.cpn=current coupon.
CONVERTIBLE BONDS: US Dollars unless indicated. Prem=percentage premium of the current effective price of buying shares via the bond over the most recent share price.
WARRANTS: Equity warrant prem=exercise premium over current share price. Bond warrant ex yld=exercise yield at current warrant price.

Closing prices on July 9

INTERNATIONAL CAPITAL MARKETS

INTERNATIONAL BONDS

Swiss tranquillity disturbed by a quiet revolution

AMONG European bond markets, few have escaped bouts of currency-related or politically inspired turbulence over the past year. However, unlike members of the European exchange rate mechanism, Switzerland's tranquillity has been disturbed by a quieter revolution taking place in the Swiss franc bond market.

In recent months, the changes which have taken place in this corner of Europe – regulations governing the market and the issuance of larger, more liquid issues – appear to be creating a more enticing market for borrowers of a sovereign and supranational nature. At the same time, a change in the economic background has made make it more likely to encourage investors to buy bonds and for borrowers to launch longer-dated issues.

A recent report by Ms Caroline Shah, an analyst at Standard & Poor's, the international credit rating agency, points out that the volume of bond issuance in the Swiss franc bond market has dwindled in recent years, as the market was "hampered by slow liberalisation" and left behind as other countries liberalised their currency markets.

According to figures provided by Euromoney Bondware, the volume of public and private Swiss franc bonds for foreign issuers declined from a total of SFr32.7bn in 1990, to SFr 29.9bn in 1991 and SFr27.8bn in 1992. Yet in the first six months of 1993, the volume of new issues has topped SFr18.5bn, suggesting the market could be set to exceed the previous year's volume. But as Ms Shah says, "recent moves have begun to reverse that trend and... may pave the way for the development of a Swiss franc Euromarket". She points out that the Swiss franc market may have benefited from the sporadic bursts of turbulence in the European exchange rate mechanism.

The following four recent changes should help to lift the growth of the Swiss franc market:

- the abolition of stamp duty on the issue of Swiss franc bonds by non-Swiss issuers
- the abolition of stamp duty on inter-professional trading of foreign bonds, which had aggravated the illiquidity in the Swiss franc market
- the relaxing of syndication requirements, so that banks which are not domiciled in Switzerland are able to syndicate Swiss franc bonds issued by foreign borrowers
- new issue commissions and associated fees for borrowers have been reduced and are more evenly distributed.

According to S&P, the relaxation of the stamp duty on foreign issues should tempt more Swiss franc bond issues from foreign borrowers while the new syndication rules should help broaden the investor base outside Switzerland.

Yet, the pace of change could be slow. A bond analyst at Pictet, the Swiss investment house, says: "The liberalisations are bearing fruit... but it remains a small capital market with very few benchmark issues."

Some borrowers are taking note of the changing environment. Last month the Republic of Austria established the benchmark bond in the Swiss franc market with the launch of its SFr1bn bond due February 2000. The Kingdom of Sweden also tapped the market last month with a SFr500m 10-year issue, its first foray in this market since 1988.

Austria's issue is particularly significant given that one of the most frequent complaints about the Swiss franc market is its poor liquidity. The market is dominated by Swiss retail investors who, once they have bought the bonds, tend to hold them to maturity. Small issues of about SFr100-SFr150m are placed and the liquidity dries up, forcing banks to quote wide bid-offer spreads thereafter.

Mr Ruedi Zehnder, head of primary markets at Credit Suisse expects Swiss retail investor appetite for bonds to pick up now that inflation is coming down and short-term interest rates are declining. The Swiss bond yield curve has been inverse for the last three years, so while investors could obtain high returns on bank deposit accounts, there was less incentive to buy lower-yielding bonds. However, with the fall in short-term rates, the curve has flattened out, and that appears to be triggering investor interest in the longer end of the curve.

Another positive factor according to one Swiss banker, is the likelihood that there will be some early redemptions of bonds with relatively high coupons this year, which should create investor demand for Swiss franc bonds.

For borrowers, Swiss interest rates appear relatively low by European standards, and some borrowers have been able to take advantage of attractive swap rates.

However, Mr Zehnder is less optimistic about the investor base: "There is not a broad demand from outside Switzerland... we are changing but not as quickly as people thought we would change."

Sara Webb

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Maturity	Coupon %	Price	Yield %	Launch spread bp	Book runner
US DOLLARS							
Seino Transportation Co.(b)φ	480	Jul.1997	1.375	100	-	-	Nomura International
NGK Insulators(d)φ	300	Jul.1997	1.375	100	-	-	Nikko Europe
Kingdom of Denmark	250	Aug.1997	4.75	99.59R	4.865	+20 (e)	Nikko Europe
Bacardi-Martini Finance	200	Jul.1998	5.75	99.56R	5.854	+80 (5⅛%-98)	JP Morgan Securities
Sumitomo Cement Co.(d)φ	200	Jul.1997	1.375	100	-	-	Nomura International
Ssangyong Oil Refining(f)§	150	Dec.2008	3.75	100	-	-	Paribas Capital Markets
Banco Pactual	60	Jan.1996	9.25#	99.63R	9.420	+530 (e)	ING Bank
Crédit Lyonnais(g)‡	1bn	Jul.1998	(g)	99.65R	-	-	C.Lyon./G.Sachs/Lehman
Japan Airlines Co.	250	Jul.2003	6.625	99.315R	6.721	+83 (6¼%-03)	CSFB
Republic of Argentina	150	Aug.1996	8.875#	99.98R	8.890	+255 (4¼%-96)	Chase/ Lehman Brothers
Republic of Argentina	100	Aug.2000	8.25#	99.7385R	8.300	+286 (5½%-00)	Chase/ Lehman Brothers
Mitsubishi Oil Co.(h)φ	200	Jul.1997	1.375	100	-	-	Nikko Europe
State Bk.of New Sth.Wales(i)‡	152.12	Feb.2003	(i)	99.1R	-	-	Morgan Stanley Intl.
Grupo IRSA	150	Jul.1998	8.375#	99.497R	8.500	+344½(5⅛%-98)	Goldman Sachs Intl.
Crédit Lyonnais(q,g)‡	250	Jul.1998	(g)	99.7R	-	-	C.Lyon./G.Sachs/Lehman
Aracruz Celulose(w)	80	Jul.1998	9#	100R	8.791	+450 (4¼%-98)	CSFB
D-MARKS							
Arbed(a)§	192.5	Jul.2003	2.5	72.724	-	-	Merrill Lynch Bank
Lynx, Ireland(c)	100	Aug.2003	zero	100	-	-	Trinkaus & Burkhardt
Altana Finance, Netherlands	100	Aug.2000	7.125	101.5	6.848	-	Dresdner Bank
STERLING							
Ladbroke Group	125	Aug.2003	8.875	99.083R	9.018	+127 (8%-03)	Barclays de Zoete Wedd
National Bank of Hungary	100	Aug.2003	10	97.66R	10.387	+260 (8%-03)	JP Morgan Securities
Forte‡	70	Jul.1996	(x)	(x)	-	-	Merrill Lynch Intl.
FRENCH FRANCS							
Kansai Electric Power Co.	2.5bn	Aug.2003	7	99.79R	7.030	+28 (6¾%-03)	Banque Paribas
Renault	1.5bn	Aug.2002	7.25	99.295R	7.360	+65 (8½%-02)	Société Générale
Bank of Greece	1bn	Aug.1998	7.5	99.355R	7.660	+140 (9½%-98)	BNP/ Crédit Lyonnais
Soc. Gén. Acceptance(r)	500	Aug.2001	6.18	99.5R	6.261	-37 (9½%-01)	Société Générale
Soc. Nationale Elf Aquitaine	1bn	Aug.2003	7.125	99.48R	7.200	+39 (6¾%-03)	CCF
YEN							
Mitsubishi Oil Co.(h,j)§	30bn	Sep.2000	2#	100	-	-	Yamaichi Intl.(Europe)
Hankyu Dept. Stores(b,k)§	15bn	Sep.2000	(k)#	100	-	-	Daiwa Europe
Takara Standard Co.(d,l)§	10bn	Mar.1998	1.625	100	-	-	Nikko Europe
CANADIAN DOLLARS							
Province of Ontario(s)	1.25bn	Dec.2003	7.75#	98.125R	8.02	+70 (7½%-03)	Merrill Lynch Intl.(s)
Kingdom of Denmark	200	Jul.1997	6.625	99.48R	6.778	+40 (6½%-96)	Kidder Peabody Intl.
SQAE	125	Aug.2003	8.125	98.894R	8.292	+80 (7¼%-03)	ScotiaMcLeod
GUILDERS							
Fokker(n)§	334	Jul.1999	4#	100	-	-	MeesPierson/ UBS
INV(o)	200	Aug.1998	6.25	99.9R	6.274	+22.6(6¼%-98)	ING Bank
Commerzbank O'seas Finance	250	Aug.1998	6.25	100.1R	6.226	+23 (6½%-98)	Rabobank Nederland
ITALIAN LIRA							
Osterreichische Kontrollbank	250bn	Aug.2003	9.5	101.625	9.244	-	Paribas Capital Markets
Kingdom of Sweden	250bn	Aug.2003	9.75	99.375R	9.851	-	Deutsche Bank London
ABB Intl. Finance, Neths.	250bn	Aug.2003	10	101.25	9.798	-	San Paolo, Turin
Benetton Intl, Neths.(m)φ	200bn	Jul.1998	(m)	100	-	-	Swiss Bank Corp.
Osterreichische Postsparkasse	150bn	Aug.2003	9.55	101.675	9.255	-	BCI
DSL Bank	150bn	Aug.1998	9.25	101.775	8.798	-	Euromobiliare/JP Morgan
Crédit Foncier de France	150bn	Aug.2003	10	102.664	9.574	-	Deutsche Bank London
SWISS FRANCS							
Inter-American Dev'ment Bank	600	Aug.2003	4.75	101.75	4.529	-	Crédit Suisse
Aloka Co.(b,p)*§	60	Sep.1997	1.375#	100	-	-	Nikko Bank (Switz.)
Caisse Française de Dev'ment	125	Aug.1998	4.375	102.25	3.871	-	Credit Suisse
Immuno Finance(t)§	75	Aug.1998	3.5	100	-	-	UBS
Commerzbank O'seas F.(h,u)φ	300	Aug.2000	2.5	100	-	-	Swiss Bank Corp.
Algan Co.(v)*φ	65	Jul.1997	1.125	100	-	-	Nomura Bank (Switz.)
LUXEMBOURG FRANCS							
Banque Indosuez	1bn	Aug.2003	7.25	102	6.966	-	BGL
European Investment Bank	1bn	Aug.1999	6.25	102	5.845	-	BIL
Parbelux Finance	1bn	Aug.1999	6.25	100	6.250	-	Banque Paribas Lux.
Kredietcorp	1.6bn	Aug.2000	7	102.45	6.552	-	Kredietbank Luxembourg
LVMH	1bn	Aug.1999	6.75	101.7	6.400	-	BGL

Final terms and non-callable unless stated. The yield spread (over relevant government bond) at launch is supplied by the lead manager. *Private placement. §Convertible. φWith equity warrants. ‡Floating rate note. #Semi-annual coupon. R: fixed re-offer price. a) Conversion price: DM3480. FX: 20.5851BFr/DM. Callable from July 1998 at par plus accrued. b) Fixing: 12/7/93. c) Redemption proceeds are principal plus performance payment (99.9% of accumulated profits). d) Fixing: 13/7/93. e) Spread is over the interpolated yield curve. f) Convertible into non-voting shares at Won21,010, a 10% premium over the 5-day voting average. FX: 804.1Won/$. Callable, subject to 150% rule, after 5 years at a price equal to the yield to put and after 8 years at par. Putable in 8 years at 126.47%. g) Coupon pays 3-month Libor + 0.3%. Callable on any interest payment date after 3 years at par. h) Fixing: 14/7/93. i) Fungible with the outstanding $98.88m exendable bonds launched in Feb.1988. Callable after 5 years on any interest payment date at par. j) Callable, subject to 130% rule, at 103% from 1/10/94 falling ½% annually. k) Coupon indicated at 2-2.25% and conversion premium at 4-6%. l) Callable, subject to 130% rule, at 102% on 1/4/94 falling ½% annually. m) Priced by 14/6/93: coupon indicated at 4.5-5% and 57-65 "knock out" warrants per L5m bond. n) Borrowers full name: Royal Dutch Aircraft Factory Fokker. Conversion price: Fl17. Callable on any interest payment date from Jan.1998 at par. o) Borrower is the insurance subsidiary of ING. p) Callable on 30/9/95 at 102% falling by ½% semi-annually. Callable, subject to 150% rule, on 30/9/93 at 102% falling by ½% semi-annually. q) Issue launched on 7/7/93 was increased to $1.25bn. r) Should the yield on the 8½% OAT due 2002 reach 10.5% the bonds are then puttable on 3/8/95 at 98½% and on 3/8/97 at 99% and on 3/8/99 at 99½%. s) Global issue. Merrill Lynch Intl. is global co-ordinator. It is joint book runner with Nomura Intl, RBC Dominion Secs. and Wood Gundy. t) Each SFr5000 bond is convertible into 5 Immuno Intl. bearer shares at SFr950 each. u) Denom.: SFr50,000 + 200 warrants. 2 warrants entitle holder to 1 Commerzbank ord. share at 1.27% premium over the average price from 9 - 14/7/93. Exercise period: 24/8/93 - 28/8/96. v) Fixing: 16/7/93. Callable on 23/7/95 at 102% declining by ½% semi-annually. w) Callable and puttable on 22/7/96 at par and 99.3% respectively. x) Coupon pays 3-month Libor + 0.85%. Price, fees undisclosed. Note: Yields are calculated on ISMA basis.

RISK AND REWARD

Derivatives industry scrambles to find some kind of infrastructure

THE debate in world banking circles over controlling systemic risk from derivative securities trading will intensify when a study group formed by the Group of 30, a Washington-based think tank, releases its report on derivatives later this month.

Such studies are popular. Derivatives, in the span of just a few years, have become integral to corporate risk management, with a surprising array of business applications, from swapping long-term debt for short-term debt to hedging foreign exchange or commodities exposure. Regulators are just coming to terms with swaps, swaptions, and hybrid instruments, and are wondering if, and how, such banking exotica should be supervised.

The banks which trade the markets are farther along in managing derivatives. The industry has evolved to a point where standardised contracts and other procedures are helping to mitigate credit risks. Now, with the threat of regulatory intervention pending, the derivatives industry is scrambling to adopt an infrastructure of sorts, in order to prove that participating dealers have the growing markets under control.

Estimates of annual over-the-counter derivatives turnover range from $5,000bn to $7,000bn in terms of notional face value. However, since only the income streams from these securities are swapped, the capital at risk in each trade is smaller than the face value of the securities by at least a factor of 10.

Ideas for managing credit exposure while at the same time allowing reasonable market access and a healthy measure of innovation range from a centralised derivatives clearing house to a more sophisticated generation of standardised bilateral swaps contracts.

Since credit quality is an important marketing tool for exchange clearing houses, big banks, and the newly-formed AAA credit-enhanced subsidiaries of big investment houses, the debate is coloured by the self-interest.

The central clearing house idea has attracted the support of some US banking regulators. A clearing house would guarantee both sides of a swap and limit default risk. With the credit quality of counterparties less of an issue, a central clearing house would, in theory, open up swap market participation to less highly capitalised banks.

Chicago's two big futures exchanges would like a slice of the swaps clearing business, and are positioning themselves for a potential bonanza. "It's something we're considering," says Mr Jim Slenz, senior director of risk management applications for the Chicago Mercantile Exchange.

The Chicago Board of Trade is making a bid to clear swaps. Late last month, it asked its primary regulator, the Commodity Futures Trading Commission, to exempt markets traded only by professionals from the constraints of federal oversight. Such an exemption, which has been granted to OTC swaps and off-exchange energy contracts, would allow the CBOT to compete against the OTC markets with its own non-standardised derivatives. However, it would also put the exchange in line to clear swaps and hybrid transactions.

The CBOT is a long way from achieving such an exemption. CFTC officials have opposed mingling the derivatives risks of large institutional traders in the same clearing house that protects the investments of small retail futures and options traders.

Mr Andrew Coleman, partner in Price Waterhouse's capital markets area, believes a separate "mega clearing-house" for OTC derivatives could be constructed, but that it would be expensive to establish.

He sees drawbacks: the procedures used to clear, or match, highly standardised futures trades in liquid exchange markets do not transfer easily to swaps, which are individually tailored to suit the needs of a single company and are usually difficult to re-sell.

The handful of specialist dealers trading swaps would prefer to avoid the expense and standardisation required by a clearing house and negotiate instead a series of bilateral agreements that reduce exposure in the event a partner in a swap defaults. Bilateral agreements allow them to preserve the marketing edge they garner from their AAA credit ratings.

Laurie Morse

NOTICE OF REDEMPTION

To Holders of

6¾% Convertible Debentures Due 2003

of

The Goodyear Tire & Rubber Company

NOTICE IS HEREBY GIVEN that in accordance with the provisions of that certain Indenture, dated as of July 7, 1986 (the "Indenture"), between The Goodyear Tire & Rubber Company ("Goodyear") and Chemical Bank, the successor by merger to Manufacturers Hanover Trust Company, as Trustee (the "Trustee"), pursuant to which Goodyear issued US $150,000,000 in principal amount of 6¾% Convertible Debentures Due 2003 (the "Debentures"; each a "Debenture"):

1. All of the outstanding Debentures will be redeemed by Goodyear on August 18, 1993 (the "Redemption Date") at a redemption price of 101% of the principal amount of each Debenture (the "Redemption Price"), together with accrued interest of 6¾% on the principal amount of each Debenture from July 7, 1993 to, but not including, the Redemption Date; which accrued interest will be equal to US$39.15 per US$5,000 principal amount bearer Debenture. The total amount payable on the Redemption Date, including the Redemption Price and accrued interest, will be US$5,089.15 per bearer Debenture.
2. On the Redemption Date, the Redemption Price and accrued interest (as specified above) will be due and payable on each Debenture upon the surrender thereof, together with all coupons appertaining thereto which mature after the Redemption Date, to any of the Paying Agents at the locations specified below. If any Debenture presented for redemption or conversion shall not be accompanied by all appurtenant coupons maturing after the Redemption Date, the Redemption Price for such Debenture will be reduced by an amount equal to the face amount of all such missing coupons.
3. Interest shall cease to accrue on all of the Debentures on and after the Redemption Date.
4. The Debentures may be converted into the Common Stock of Goodyear ("Goodyear Common Stock") at a Conversion Price equal to US$40.12 aggregate principal amount of Debenture for each share of Goodyear Common Stock through the close of business on the Redemption Date. At the close of business on the Redemption Date the right to convert the Debentures will terminate.
5. The Debenture may be surrendered for redemption or conversion into Goodyear Common Stock to any of the following Paying and Conversion Agents at the following locations:

Chemical Bank (formerly Manufacturers Hanover Trust Company) 180 Strand London WC2R 1EX England

Banque Bruxelles Lambert Avenue Marnix 24 B-1050 Brussels Belgium

Credit Suisse 8 Paradeplatz CH-8001 Zurich Switzerland

Kredietbank S.A. Luxembourgeoise 43 Boulevard Royal L-2955 Luxembourg The Grand Duchy of Luxembourg

The Goodyear Tire & Rubber Company

July 12, 1993

These securities have not been registered under the Securities Act of 1933 and may not be offered or sold in the United States absent registration or an applicable exemption from the registration requirements of the Securities Act of 1933, including Rule 144A thereunder. These securities have been previously sold. This announcement appears as a matter of record only.

New Issue / June, 1993

PETRONAS

$500,000,000

Petroliam Nasional Berhad

(incorporated in Malaysia with limited liability)

6⅞% Notes Due 2003

Salomon Brothers Inc

Lehman Brothers

J.P. Morgan Securities Inc.

Standard Chartered

Standard Chartered PLC

(Incorporated with limited liability in England)

US$400,000,000 Undated Primary Capital Floating Rate Notes

In accordance with the provisions of the Notes, notice is hereby given that for the Interest Determination period from 12th July 1993 to 12th August 1993 the Notes will carry interest at the rate of 3.625 per cent per annum.

Interest accrued to 12th August 1993 and payable on 12th January 1994 will amount to US$31.22 per US$10,000 Note and US$312.15 per US$100,000 Note.

West Merchant Bank Limited
Agent Bank

Standard Chartered

Standard Chartered PLC

(Incorporated with limited liability in England)

US$300,000,000 Undated Primary Capital Floating Rate Notes (Series 4)

(of which US$200,000,000 has been issued as the Initial Tranche)

In accordance with the provisions of the Notes, notice is hereby given that for the six month period. (184 days), from 12th July 1993 to 12th January 1994 the Notes will carry interest at the rate of 3.65 per cent. per annum.

Interest payable on 12th January 1994 will amount to US$186.56 per US$10,000 Note and US$1,865.56 per US$100,000 Note.

West Merchant Bank Limited
Agent Bank

Notice to Holders of Warrants to subscribe for shares of common stock of

Yamamura Glass Co., Ltd.

issued in conjunction with

U.S. $100,000,000

4 per cent. Guaranteed Notes due 1995

Notice is hereby given in connection with the captioned warrants (the "Warrants") as follows:

The average of the closing prices of shares ("Shares") of common stock of Yamamura Glass Co., Ltd. (the "Company") on the Tokyo Stock Exchange for the five consecutive trading days up to and including 9th July, 1993, when multiplied by 1.025 and rounded upward to the nearest yen, was ¥772 per Share and was less than the Subscription Price of the Warrants in effect on such day by not less than ¥1, and consequently the Subscription Price of the Warrants is required to be revised downward pursuant to the provisions of Condition (2) (A) of the Terms and Conditions of the Warrants.

As a result, the Subscription Price of the Warrants which is currently ¥923 per Share will be revised downward to ¥772 per Share with effect from 26th July, 1993, Japan time.

Yamamura Glass Co., Ltd.

By: The Mitsubishi Trust and Banking Corporation, London Branch
as Principal Paying Agent

Dated: 12th July, 1993

WORLD STOCK MARKETS

CANADA

TORONTO

INDICES

NEW YORK

DOW JONES	July 9	July 8	July 7	July 6	1993 HIGH	1993 LOW	Since compilation HIGH	Since compilation LOW
Industrials	3521.06	3514.42	3475.67	3449.93	3554.83 (27/5)	3241.95 (20/1)	3554.83 (27/5/93)	41.22 (2/7/32)
Home Bonds	107.63	107.65	107.60	107.61	107.75 (29/6)	103.49 (11/1)	501.97 (27/4/93)	54.99 (1/10/81)
Transport	1509.16	1519.25	1499.29	1528.07	1683.08 (16/4)	1453.84 (4/1)	1683.08 (16/4/93)	12.32 (8/7/32)
Utilities	246.05	248.44	244.86	243.84	247.68 (16/4)	217.14 (8/1)	247.68 (16/4/93)	10.50 (8/4/32)

DJ Indl. Day's High 3544.03 (3532.41) Low 3480.89 (3462.38) (Theoretical♠)
Day's High 3527.98 (3516.91) Low 3507.50 (3475.33) (Actual♠)

STANDARD AND POOR'S	July 9	July 8	July 7	July 6	1993 HIGH	1993 LOW	Since compilation HIGH	Since compilation LOW
Composite ‡	448.11	448.64	442.83	441.43	456.33 (10/3)	429.05 (8/1)	456.33 (10/3/93)	4.40 (1/6/32)
Industrials♥	509.61	508.65	503.56	501.83	524.99 (10/3)	496.48 (26/4)	524.99 (10/3/93)	3.62 (21/6/32)
Financial	45.79	45.97	45.09	44.74	46.67 (13/4)	39.89 (8/1)	46.67 (13/4/93)	8.64 (1/10/74)
NYSE Composite	248.19	248.33	245.68	245.07	251.36 (10/3)	236.21 (8/1)	251.36 (10/3/93)	4.46 (25/4/42)
Amex Mkt. Value	434.37	432.35	431.79	433.77	440.95 (4/6)	395.84 (8/1)	440.95 (4/6/93)	29.31 (9/12/72)
NASDAQ Composite	705.61	702.71	698.79	702.22	708.85 (4/2)	645.87 (26/4)	708.85 (4/2/93)	54.87 (31/10/72)

NEW YORK ACTIVE STOCKS

TRADING ACTIVITY

CANADA

TORONTO

JAPAN

TOKYO - Most Active Stocks

Friday, July 9, 1993

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Nikkatsu	10.5m	25	+9	Hitachi	3.5m	841	+19
Cosmo Oil	6.4m	861	+8	Sumitomo Bank	3.5m	2,380	+70
Nippon Steel	5.5m	361	+6	Sharp Corp	3.2m	1,320	+30
Sumitomo Mtl Min	5.5m	1,060	-20	Meiji Milk Prod	3.1m	1,030	+32
Sumitomo Mtl Ind	3.6m	333	+7	Toshiba Corp	2.8m	673	+10

● FT Cityline Unit Trust Prices: dial (0891 or 0336) 430000, enter 4 and key in the five digit code listed below. Calls are charged at 36p/minute cheap rate and 48p/minute at all other times. International access available by subscription only. For more details call the FT Cityline Help Desk on (071) 873 4378.

FT MANAGED FUNDS SERVICE

AUTHORISED UNIT TRUSTS

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro §§

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, *most unit trust managers quote a much narrower spread*. As a result, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in *circumstances in which there is a large excess of sellers of units over buyers.*

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (✦) - 0001 to 1100 hours; (♦) - 1101 to 1400 hours; (▲) - 1401 to 1700 hours; (#) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point; *a short period of time may* elapse before prices become available.

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set on the *most recent* valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the *newspaper are the most recent provided by the* managers.

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

§§ Life Assurance and Unit Trust Regulatory Organisation, Centre Point, 103 New Oxford Street, London WC1A 1QH Tel: 071-379-0444.

FT MANAGED FUNDS SERVICE

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	Init Chrge	Canc Price	Bid Price	Offer Price	Yield Gr's	City-Line
Sheppards Unit Trust Mngmt Ltd (1200)F						
1 White Hart Yard, London Bridge SE1					071-407 5966	
Income	5	387.29	387.29	422.80	4.18	4013
Global Inc	5	61.7	61.7	65.64	2.98	4016
Brit Leaders	5	308.06	308.06	327.72	2.16	4014
Intl Leaders	0	194.29	194.29	206.69	0.63	4015
F Am Non Bd Gwth Inc	3¼	54.97	58.49	56.69	7.09	4289
Singer & Friedlander UT Mngmt Ltd (1000)F						
PO Box 224, Beckenham, BR3 4TF					081-663 3003	
European Trust	6	63.11	63.27	58.67	1.19	4202
Far Eastern Tst	6	62.77	63.62	67.88	0.44	4311
Smaller Cos	5	155.9	160.5	170.8	1.52	4201
Smith & Williamson Unit Tst Mgrs (1000)F						
1 Riding House St, London W1A 3AS.					071-637 5377	
S & W American	5	262.4	262.8	278.1	0.85	4138
S & W Capital	5	119.3	119.3	127.8	1.09	4091
S & W Cash	0	101.32	101.32	101.32	5.36	4160
S & W European	5	113.6	113.8	120.4	0.97	4053
S & W Far Eastern	5	148.4	149.7	158.4	0.00	4074
S & W Growth	5	128.0	127.9	135.3	7.28	4391
S & W Income	5	114.6	115.7	122.4	4.60	4182
S & W Magnum	5	124.0	124.0	133.0	1.64	4086
S & W Smlr Secs	5	322.5	328.4	348.6	0.37	4150
S & W Thoroughbred	5	148.4	145.4	156.0	1.57	4057
Sovereign Unit Tst Mngrs Ltd (1000)F						
12 Christchurch Rd, Bournemouth					0202 298422	
Cash	1	49.84	49.84	50.34	5.3	4046
Cnsrld Prtmnce	5½	56.72	57.16	60.99	7.7	4095
Ethical	5½	52.66	53.66	56.98	3.9	4048
European Growth	5½	58.72	59.07	63.00	2.9	4071
Income	5½	52.84	53.28	56.83	5.6	4184
Intl Growth	5½	81.32	81.85	87.30	2.9	4185
Managed	5½	69.78	70.61	75.21	3.6	4186
UK Growth	5½	56.51	57.12	60.82	4.4	4187
Standard Life Tst Mngmt Ltd (0730)H						

	Bid Price	Offer Price	Yield Grss	City-Line
Fidelity Investment Services Ltd				
Exempt American Portfolio	141.3	143.9	0.00	43440
Mngd Pens P'folio	175.7	180.8	0.00	46865
Fledgeling Charity Portfolio				
25 Copthall Avenue EC2R 7DR		071-638 5858		
UK Equity	£1.1180	1.1540	3.91	-
Bond	£1.0410	1.0657	8.50	-
Robert Fleming Asset Mngmt Ltd				
Am Exempt	£617.85	625.84	1.88	40459
Cap Exempt	£153.72	157.04	3.30	40457
Jap Exempt	£593.48	602.06	1.04	40488
Pacific Exempt	£158.87	162.78	1.09	46868
Contl Euro Exempt	£121.32	123.67	2.38	47874
Foreign & Colonial Unit Management Ltd				
Balanced Acc Jul 6	184.7	192.1	2.84	43441
Balanced Inc Jul 6	151.5	158.7	2.84	43443
Latin American Acc Jul 7	102.7	103.8	1.64	43444
Funds in Court*				
Capital May 27	851.78	885.64	3.72	40505
Gross May 27	208.77	207.43	10.14	40506
High Yield May 27	336.00	340.71	7.64	40507
* Restricted to monies under Court control				
Gerrett (John) Unit Mngmt Ltd				
Managed Exempt	109.86	113.69	3.60	43446
Henderson Unit Trust Management Ltd				
Pensions Mngd	62.38	63.62	2.74	40676
Henderson TR				
Ex Europeans	1238.41	1348.88	1.84	47801
Ex Nth American	1469.74	1481.28	0.71	47802
Ex Pacific Basin	986.00	870.25	0.81	47803
Ex Smaller Cos Inc	1947.85	2066.85	2.82	43737
Ex Smaller Cos Acc	2086.90	2201.70	2.52	43782

INSURANCES

OTHER UK UNIT TRUSTS

FT MANAGED FUNDS SERVICE

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	Bid Price	Offer Price	Yield Gross	City-Line
Providence Capital Life Assc. Co Ltd - Contd.				
Alpha Pension Funds				
UK Alpha	229.8		–	47229
US Alpha	122.7		–	47230
Gilt Alpha	87.5		–	47231
Gold Alpha	90.2		–	47232
Japan Alpha	45.3		–	47233
US Dollar Alpha	77.1		–	47234
Yen Alpha	81.8		–	47236
DM Alpha	87.1		–	47236
European Alpha	80.8		–	47237
Provident Life Assoc Ltd				
Provident Way, Basingstoke RG21 2SZ				0256 470707
Gold Range (Pensions)				
Managed Fund	156.9		–	48412
Provident Mutual Life Assc. Assn.				
6 Hills Way Stevenage Herts SG1 2ST				0438 732000
Managed Ord	419.9	442.0	–	43484
Managed Init	296.4	312.0	–	43485
Equity Ord.	623.7	656.5	–	43486
Equity Init	440.3	463.5	–	43487
Index Linked Gilt Ord.	198.4	208.7	–	43488
Index Linked Gilt Init	144.8	152.4	–	43489
Overseas Equity Ord.	341.2	359.2	–	43490
Overseas Equity Init	240.8	253.6	–	43491
Property Ord	229.0	241.1	–	43492
Property Init	161.6	170.1	–	43493
Fixed Interest Ord.	266.8	280.8	–	43494
Fixed Interest Init	188.3	198.2	–	43495
Deposit Ord	197.1	207.5	–	43496
Deposit Init	139.1	146.4	–	43497
Pension Funds				
Managed Ord	554.5	583.7	–	43498
Managed Init	391.4	412.0	–	43499
Equity Ord.	850.1	894.8	–	43500
Equity Init	600.1	631.7	–	43501
Pen Ind Lkd Gilt Ord	223.7	235.5	–	43502
Pen Ind Lkd Gilt Init	164.9	173.6	–	43503
Overseas Equity Ord.	397.6	418.5	–	43504
Overseas Equity Init	280.7	295.5	–	43505
Property Ord	292.8	308.2	–	43506
Property Init	206.7	217.6	–	43507
Fixed Interest Ord.	347.3	365.6	–	43508
Fixed Interest Init	245.2	258.1	–	43509
Deposit Ord.	288.7	303.9	–	43510
Deposit Init	203.8	214.5	–	43511
Prudential Assurance Co				
Holborn Bars, London EC1N 2NH				071-405 9222

	Bid Price	Offer Price	Yield Gross	City-Line
Scottish Amicable				
150 St Vincent St, Glasgow				041-248 2323
Life Funds (First Series)				
Managed	408.1	429.6	–	43861
Equity	507.3	534.0	–	43866
Property	243.7	256.6	–	43858
International	405.3	426.7	–	43867
Japanese	114.8	120.9	–	48007
Asia Pacific	142.8	150.4	–	48254
European	109.8	115.6	–	48255
American	146.8	154.6	–	48253
Fixed Interest	348.0	366.4	–	43859
Index-Linked Gilt	188.3	198.3	–	43860
Cash	220.6	232.3	–	43856
Life Funds (Second Series)				
Managed	113.8	119.8	–	47103
Equity	109.1	114.9	–	47097
Property	102.5	107.9	–	47107
International	125.4	132.0	–	47101
Japanese	115.2	121.3	–	47102
Asia Pacific	140.2	147.6	–	47058
European	108.9	114.7	–	47076
American	143.6	151.2	–	47060
Fixed Interest	131.0	137.9	–	47081
Index-Linked Gilt	120.5	126.9	–	47100
Cash	109.5	115.3	–	47061
Pension Funds				
Building Society	174.0	183.2	–	43874
Managed (Init)	235.8	248.1	–	43872
Managed (Acc)	468.8	493.5	–	43873
Equity (Init)	263.8	277.6	–	43862
Equity (Acc)	524.4	552.1	–	43863
Property (Init)	148.0	155.8	–	43868
Property (Acc)	294.4	309.9	–	43869
International (Init)	240.0	252.7	–	43866
International (Acc)	477.4	502.6	–	43867
Fixed Interest (Init)	231.1	243.3	–	43864
Fixed Interest (Acc)	459.7	483.9	–	43865
Cash (Init)	153.9	162.1	–	43870
Cash (Acc)	306.3	322.5	–	43871
Others				
Capital Guarantee Bond	99.2	104.5	–	44358
Scottish Equitable Life Assce. Soc.				
28 St Andrew Sq, Edinburgh				031-556 9101
Mixed	228.4	240.4	–	43875
UK Equity	215.1	226.4	–	43876
International	230.4	242.6	–	43877
American	239.5	252.1	–	43878

	Bid Price	Offer Price	Yield Gross	City-Line
Sun Alliance Group - Contd.				
Worldwide Bond	167.9	176.8	–	44224
From Special Managed	186.5	186.0	–	44232
From America Smlr Cos.	172.1	181.2	–	44227
From America Turnaround	167.4	176.3	–	44230
From Capital Tst	150.8	158.8	–	44226
From Intl Growth	167.6	176.5	–	44226
From Japan & General	234.2	246.6	–	44229
From Recovery Tst	228.9	238.9	–	44231
GT Special Mngd	151.6	159.6	–	44240
GT Amer Spec Sits	174.0	183.2	–	44235
GT Capital	183.1	192.8	–	44238

OFFSHORE INSURANCES

	Bid Price	Offer Price	Yield Gross	City-Line
AXA Equity & Law Intl Life Assce Co				
Victory Hse, Prospect Hill, Douglas, IoM				0624 677877
European Equity	99.6	105.3	–	44815
Far Eastern Equity	$1.327	1.541	–	44816
North American Equity	$1.080	1.149	–	44817
UK Equity	118.2	124.6	–	44818
UK Gilt & Fixed Int	97.4	104.7	–	44819
Dollar Deposit	$0.677	0.727	–	44820
Sterling Deposit	92.8	99.7	–	44821

	Bid Price	Offer Price	Yield Gross	City-Line
Royal Skandia Life Assurance Ltd - Contd.				
$ Balanced Fidelity	$1.220	1.311	–	43746
$ Balanced INVESCO MIM	$1.181	1.269	–	47730
$ Aggressive Perpetual	$1.172	1.260	–	47731
$ Deposit	$1.134	1.219	–	47402
ECU Cautious Guinness Flight	Ecu1.125	1.209	–	44496
ECU Balanced Gartmore	Ecu1.150	1.230	–	44497
ECU Balanced SG SICAV	Ecu1.099	1.181	–	43751
ECU Balanced INVESCO MIM	Ecu1.089	1.170	–	47732
S.A.M. 1 AusS	A$1.794	1.928	–	47403
S.A.M. 2 AusS	A$1.184	1.348	–	45317
S.A.M. 3	£1.786	1.858	–	47407
S.A.M. 4	£1.689	1.778	–	47408

	Init Chrge	Canc Price	Bid Price	Offer Price	Yield Gr's	City-Line
Equitable International Fund Managers Ltd						
PO Box 255, St Peter Port Guernsey CI						0481 710651
Sterling High Yld	1	£0.980	0.980	1.008	4.88	4537
Guinness Flight Fd Mngrs (Guernsey) Ltd						
PO Box 250, St Peter Port, Guernsey						0481 712176
Guinness Flight International Accum Fund (Daily)						
US Dollar Money	0	$–	37.596		2.47	4548
Sterling Money	0	£–	27.000		5.37	4550
Yen Money	0	Y–	7839.383		2.49	4549
Deutschemark Money	0	DM–	84.800		7.19	4552
Swiss Franc Money	0	SFr–	61.822		4.36	4553
Mixed Currency	5¼	$78.41	73.58	83.77	8.02	4554
Intl Fixed Bond	5¼	$36.52	38.75	40.79	6.27	4543

	Bid Price	Offer Price	Yield Gross	City-Line
Merrill Lynch Guernsey				
Bangkok NAV Jul 7	$57.91	533.51	–	42709
Euro Spain Jul 8		8.39	–	46390
Iberia Portfolio NAV		$8.38	–	–
Latin Am Cap Prtc A Jul 30		$11.03	–	–
Latin Am Cap Prtc B Jul 31		$3.80	–	–
Nikko Capital Mngt (Europe) Ltd				
New Generation Fd	522.67	22.90	–	45550
Japan Index Fund	Y2508	2534	–	45359
Japan Index Alpha	Y7620	7745	–	48350
Jpn Sector Rotation Fd	Y5684	5796	–	47834
Jpn Gap Gwth CB Fd	Y11754	11755	–	48822
Jpn Rstn Reversal Fd	Y10927	11036	–	47763

	Bid Price	Offer Price	Yield Gross	City-Line
J. Rothschild International Assce plc				
Aggressive US$	$10.732	11.297	–	–
Balance US$	$10.629	11.189	–	–
Cautious US$	$10.286	10.826	–	–
Bond US$	$10.398	10.946	–	–
N. A. Equity	$9.952	10.476	–	–
Japan	$12.243	12.888	–	–
Far Eastern	$11.362	11.960	–	–
Deposit	$10.068	10.598	–	–
Managed Currency	$10.651	11.212	–	–
Aggressive DM	DM11.806	11.585	–	–
Balance DM	DM10.871	11.444	–	–
Cautious DM	DM10.553	11.108	–	–
Bond DM	DM10.364	10.910	–	–
European	DM10.602	11.160	–	–
Deposit DM	DM10.321	10.865	–	–

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

CANADA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

FT MANAGED FUNDS SERVICE

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Midland Bank Fund Managers (Jersey) Ltd
PO Box 26, St Helier, Jersey 0534 606000

Prudential Fund Managers (Jersey) Ltd
PO Box 103, St Helier, Jersey 0534 70009

	Init Chrge	Canc Price	Bid Price	Offer Price	Yield Gr's	City-Line
Income (A & B)	5	212.8	212.8	223.5	3.44	[illegible]
Growth (C & D)	5	320.6	320.6	336.6	–	[illegible]

Royal Trust Jsy Fd Mngt Ltd (1400)F
PO Box 428, St Helier, Jersey 0534 27441

	Init Chrge	Canc Price	Bid Price	Offer Price	Yield Gr's	City-Line
Govt Secs Fd	4	55.69	55.89xd	58.17	7.56	4874

Standard Bank Fund Mgmt (Jersey) Ltd
PO Box 583, St Helier, Jersey CI 0534 67557

	Init Chrge		Bid Price	Offer Price	Yield Gr's	City-Line
International Bond	5	$-	15.87	16.85	4.57	[illegible]
Sterling Bond	3	£-	[illegible]	10.27	6.43	[illegible]
Sterling Cap		£-	42.63	42.65	6.30	[illegible]

TSB Trust Funds (CI)
PO Box 538, St Helier, Jersey 0534 503002
TSB Offshore Investment Fund Ltd

	Init Chrge	Canc Price	Bid Price	Offer Price	Yield Gr's	City-Line
Stg Deposit Class	3	101.34	101.34xd	104.28	5.00	[illegible]
Gilt & Fixed Interest	3	118.57	118.57xd	122.89	7.64	[illegible]
Blue Chip & Gilt Edged	5	60.42	60.42	63.60	3.58	[illegible]
International Bond	5	137.47	137.47	144.89	4.91	[illegible]
UK Equity	5	264.91	263.61	277.38	1.25	[illegible]
International Equity	5	173.77	182.49	192.18	0.36	[illegible]
Far Eastern	5	171.83	175.13	184.36	0.00	[illegible]
European	5	120.84	127.52	134.23	0.00	[illegible]
Pan American	5	367.06	371.00	390.52	0.00	[illegible]

TSB Gilt Fund Ltd

	Init Chrge	Canc Price	Bid Price	Offer Price	Yield Gr's	City-Line
Quarterly Share	3	107.01	107.01xd	110.51	7.80	[illegible]
Monthly Share	3	106.26	106.26xd	109.74	7.85	[illegible]

JERSEY (REGULATED)(**)

Barclays Intl Funds
Asian Selection Funds

	Bid Price	Offer Price	Yield Gross	City-Line
China	$9.039	9.462	0.0	–
Hong Kong	$29.761	31.327	0.4	44544
Indonesia	$10.301	10.845	0.0	44566
Japan	$9.623	10.130	0.0	–
Korea	$11.688	12.301	0.0	44567
Malaysia	$18.769	19.757	0.0	44595
Philippines	$16.592	17.465	0.0	44599

Banque Scandinave a Luxembourg SA - Contd.
Scandifond Bond Fund

	Init Chrge		Bid Price	Offer Price	Yield Gr's	City-Line
Bond Int. Acc	1	$-	12.25	12.39	6.64	[illegible]
Europe Bond Acc	1	$-	1.53	1.56	7.15	[illegible]
Bond DEM Acc	1	DM-	1.23	1.25	6.64	[illegible]
Bond USD Acc	1	$-	1.42	1.44	5.79	[illegible]
Bond Sweden Acc	1	SKr-	16.57	16.75	10.19	[illegible]

Scandifond International Sicav

	Init Chrge		Bid Price	Offer Price	Yield Gr's	City-Line
Intl Emerging Markets	5	$-	1.08	1.13	–	–

Barclays Diversified Portfolio
14 rue Aldringen L-1118 352 4798 2939

		Bid Price	Offer Price	Yield Gr's	City-Line
IPB Deutschmark Reserve	DM-	31.58	–	–	–
IPB Sterling Reserve	£-	10.38	–	–	–
IPB Swiss Franc Reserve	SFr-	30.62	–	–	–
IPB US Dollar Reserve	$-	20.34	–	–	–
IPB European Bond	Ecu-	17.86	–	–	–
IPB North American Bond	$-	21.38	–	–	–
IPB Espana	Pta-	2787	–	–	–
IPB Europe	Ecu-	18.19	–	–	–
IPB Japan	$-	27.73	–	–	–
IPB Pacific Rim	$-	23.11	–	–	–
IPB United Kingdom	£-	11.04	–	–	–
IPB United States	$-	21.11	–	–	–

Barclays Inv Funds (Luxembourg)
41 Avenue de la Gare L-1611 010 352 404344
Equity Funds

		Bid Price	Offer Price	Yield Gr's	City-Line
European Equity $ 5½	£-	0.928	0.986	0.3	[illegible]
Intl Equity $ 5½	£-	1.466	1.549	0.3	[illegible]
North Am Eqty $ 5½	$-	33.88	36.04	0.3	[illegible]
Pacific Eq $ 4½	£-	6.415	6.627	0.5	[illegible]
UK Equity $ 5½	£-	1.111	1.182	0.5	[illegible]

Bond Fund

		Bid Price	Offer Price	Yield Gr's	City-Line
International Bond $ 3½	$-	99.54	104.05	5.3	4477

CMI Asset Management (Luxembourg) SA
203 route d'Arlon, L-1150 Lux 010 352 458825
CMI Managed Portfolio Investment Company (x)

		Bid Price	Offer Price	Yield Gr's	City-Line
Safeguard Portfolio F	£-	1.275	1.358	–	4477
Growth Portfolio F	£-	1.145	1.219	–	[illegible]
Enterprise Portfolio F	£-	1.102	1.174	–	[illegible]

CMI Global Network Fund (x)

		Bid Price	Offer Price	Yield Gr's	City-Line
Australasian Equity	A$-	13.300		–	[illegible]
Benelux Equity	DG-	22.105		–	[illegible]
Canadian Equity	C$-	9.887		–	[illegible]
SE Asia Equity	$-	13.592		0.85	[illegible]
French Equity	FFr-	62.518		0.94	[illegible]
German Equity	DM-	19.102		–	[illegible]
Iberian Equity	Pta-	742		0.01	[illegible]
Irish Equity	I£-	4.370		–	–
Italian Equity	L-	7750		–	[illegible]
Japanese Equity	Y-	1352		–	[illegible]
Nordic Equity	SKr-	48.571		–	[illegible]
Swiss Equity	SFr-	22.000		–	[illegible]

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

LUXEMBOURG (REGULATED)(**)

LUXEMBOURG (SIB RECOGNISED)

MANAGED FUNDS NOTES

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGE AND MONEY MARKETS

Franc in trouble

THE main focus of attention in currency markets this week will be on the French franc after a week which has seen heavy selling pressure on the currency in the European exchange rate mechanism, *writes James Blitz.*

The last 5 trading days have seen an extraordinary fall in the franc's value against the D-Mark and, on Friday, the currency came below the FFr3.40 level against the German currency for the first time since March.

More worryingly, the currency was at minus 71 percentage points level against its ERM divergence indicator, a point close to the one where European central banks are required to support an ailing currency.

The franc's fortunes this week will be probably be decided by events in Frankfurt as much as in Paris. There was strong speculation late last week that the Bundesbank might lower the repo rate in its weekly money market intervention on Wednesday, currently at 7.30 per cent.

A Bundesbank council meeting is also due on Thursday. At the start of last week, it was assumed that the German central bank would leave its interest rates unchanged at this session, and that the earliest that a cut in official rates could be expected was July 29.

But, in the wake of recent developments, some dealers are leaning towards the view that the Bundesbank will have to lower its Lombard rate – and perhaps even its discount rate – this week if the French currency is to receive firm underpinning.

Several German economic indicators will hint at whether the Bundesbank will be able to ease monetary policy. Wholesale prices figures for June are due out today, with the market expecting a slight rise in inflation. Producer prices for the same month are also due on Friday.

UK clearing bank base lending rate 6 per cent from January 26, 1993

£ IN NEW YORK

Jul 9	Close	Previous Close
£ Spot	1.4803-1.4813	1.4955 1.4965
1 month	0.37-0.36pm	0.37 0.36pm
3 months	1.01-0.99pm	1.01 0.99pm
12 months	3.05-2.95pm	3.05 2.96pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

	Jul 9	Previous
8.30 am	80.8	80.7
9.00 am	80.9	80.6
10.00 am	80.8	80.6
11.00 am	80.7	80.7
Noon	80.7	80.8
1.00 pm	80.7	80.9
2.00 pm	80.7	80.8
3.00 pm	80.7	80.9
4.00 pm	80.6	80.8

CURRENCY MOVEMENTS

Jul 9	Bank of England Index	Morgan Guaranty Changes %
Sterling	80.6	-28.77
U.S Dollar	66.4	-11.9
Canadian Dollar	94.7	-8.07
Austrian Schilling	113.1	+15.27
Belgian Franc	113.9	+0.56
Danish Krone	115.6	+10.47
D-Mark	121.9	+29.71
Swiss Franc	115.6	+20.33
Dutch Guilder	117.4	+19.61
French Franc	107.1	-8.39
Lira	81.3	-33.39
Yen	178.1	+119.18
Peseta	90.1	-31.12

Morgan Guaranty changes: average 1980-1982=100. Bank of England (Base Average 1985=100) *Rates are for Jul 8

OTHER CURRENCIES

Jul 9	£	$
Argentina	1.4775 - 1.4790	0.9985 - 0.9995
Australia	2.1605 - 2.1625	1.4605 - 1.4615
Brazil	87555.3 - 87556.8	59179.0 - 59180.0
Finland	8.5070 - 8.5575	5.7425 - 5.7625
Greece	345.230 - 352.200	231.180 - 235.840
Hong Kong	11.4605 - 11.4780	7.7550 - 7.7580
Iran	2423.00 - 2429.00	1610.00 - 1612.00
Korea(Sth)	1194.95 - 1214.25	801.20 - 807.60
Kuwait	0.44600 - 0.44700	0.30150 - 0.30200
Luxembourg	52.55 - 52.65	35.45 - 35.55
Malaysia	3.8035 - 3.8140	2.5735 - 2.5745
Mexico	4.6205 - 4.6235	3.1230 - 3.1250
N.Zealand	2.6855 - 2.6890	1.8150 - 1.8175
Saudi Ar	5.5420 - 5.5530	3.7495 - 3.7505
Singapore	2.4005 - 2.4065	1.6260 - 1.6270
S.Af (Cm)	4.9515 - 4.9625	3.3515 - 3.3535
S.Af (Fn)	6.8205 - 6.8355	4.6100 - 4.6300
Taiwan	39.20 - 39.35	26.50 - 26.60
U.A.E.	5.4245 - 5.4375	3.6715 - 3.6735

CURRENCY RATES

Jul 9	Bank rate %	Special * Drawing Rights	European † Currency Unit
Sterling	-	0.930414	0.765721
U.S Dollar	3.00	1.39162	1.13628
Canadian $	4.73	1.78127	1.45455
Austrian Sch	6.25	16.6605	13.7501
Belgian Franc	6.00	48.7756	40.2414
Danish Krone	7.25	9.12485	7.54434
D-Mark	6.75	2.36851	1.95338
Dutch Guilder	6.00	2.66523	2.19809
French Franc	10	8.04774	6.64440
Italian Lira	10.00	2172.28	1797.42
Japanese Yen	2.50	149.903	123.677

POUND SPOT - FORWARD AGAINST THE POUND

Jul 9	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.4765 - 1.4960	1.4810 - 1.4820	0.38-0.36cpm	3.00	1.03-1.00pm	2.74
Canada	1.8865 - 1.9205	1.8940 - 1.8950	0.31-0.25cpm	1.77	0.95-0.70pm	1.74
Netherlands	2.8595 - 2.8725	2.8625 - 2.8725	1/8-1/4cdis	-0.78	1/4-3/8dis	-0.70
Belgium	52.35 - 52.60	52.55 - 52.65	3-9cdis	-1.37	6-15dis	-0.80
Denmark	9.8210 - 9.8560	9.8425 - 9.8525	2 1/8-3 5/8oredis	-3.50	6 1/8-7 3/4dis	-2.87
Ireland	1.0466 - 1.0545	1.0535 - 1.0546	0.06-0.10cdis	-0.91	0.17-0.23dis	-0.76
Germany	2.5490 - 2.5525	2.5475 - 2.5525	1/4-3/8pfdis	-1.47	3/4-1dis	-1.37
Portugal	242.20 - 244.50	243.50 - 244.50	80-99cdis	-4.40	258-351dis	-4.98
Spain	194.80 - 196.40	195.20 - 195.50	80-98cdis	-5.50	225-275dis	-5.12
Italy	2333.90 - 2354.00	2338.75 - 2339.75	6-10liredis	-4.10	18-21dis	-3.33
Norway	10.8000 - 10.8480	10.8350 - 10.8450	par-1 1/8oredis	-0.62	1/2-1 1/4dis	-0.32
France	8.6380 - 8.6760	8.6625 - 8.6725	1 1/4-1 3/4cdis	-2.08	3 1/4-3 7/8dis	-1.64
Sweden	11.7650 - 11.8470	11.8200 - 11.8300	2 1/8-3 5/8oredis	-2.92	6 1/8-7 1/4dis	-2.39
Japan	160.75 - 163.00	162.00 - 163.00	1/2-3/8ypm	3.23	1 1/8-1pm	2.62
Austria	17.92 - 17.97	17.94 - 17.97	1/8-1 3/8grodis	-0.63	1 3/4-3 1/4dis	-0.61
Switzerland	2.2610 - 2.2725	2.2625 - 2.2725	1/8-1/8cpm	1.32	1/4-3/8pm	1.21
Ecu	1.2945 - 1.3060	1.3070 - 1.3080	0.23-0.28cdis	-2.34	0.63-0.69dis	-2.02

Commercial rates taken towards the end of London trading. Six-month forward dollar 1.78-1.73pm. 12 Month 3.05-2.95pm.

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

Jul 9	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.4765 - 1.4960	1.4810 - 1.4820	0.38-0.36cpm	3.00	1.03-1.00pm	2.74
Ireland†	1.4025 - 1.4260	1.4065 - 1.4075	0.50-0.46cpm	4.09	1.26-1.23pm	3.57
Canada	1.2770 - 1.2815	1.2775 - 1.2785	0.12-0.14cdis	-1.22	0.25-0.39dis	-1.00
Netherlands	1.9140 - 1.9385	1.9345 - 1.9355	0.59-0.62cdis	-3.75	1.62-1.68dis	-3.41
Belgium	35.05 - 35.55	35.45 - 35.55	10.00-12.00cdis	-3.72	28.00-32.00dis	-3.38
Denmark	6.5700 - 6.6510	6.6450 - 6.6500	2.90-3.50oredis	-5.78	7.90-8.90dis	-5.05
Germany	1.7175 - 1.7245	1.7205 - 1.7215	0.63-0.64pfdis	-4.43	1.78-1.80dis	-4.16
Portugal	164.00 - 164.55	164.05 - 164.15	117-123cdis	-8.78	323-343dis	-8.12
Spain	130.50 - 132.20	131.95 - 132.05	95-100cdis	-8.86	258-268dis	-7.97
Italy	1582.25 - 1585.60	1578.75 - 1579.25	8.50-9.00liredis	-6.65	24.20-25.20dis	-6.26
Norway	7.2250 - 7.3310	7.3150 - 7.3200	1.90-2.40oredis	-3.53	5.60-6.40dis	-3.28
France	5.7860 - 5.8630	5.8475 - 5.8525	2.55-2.75cdis	-5.44	6.70-7.10dis	-4.72
Sweden	7.8980 - 8.0000	7.9800 - 7.9850	3.50-4.10oredis	-5.71	9.50-10.50dis	-5.01
Japan	107.85 - 109.90	109.60 - 109.70	0.01pm-0.01ydis	-	0.02pm-par	0.04
Austria	11.9800 - 12.1150	12.1100 - 12.1150	3.60-3.90grodis	-3.72	9.70-10.55dis	-3.34
Switzerland	1.5125 - 1.5365	1.5300 - 1.5310	0.19-0.22cdis	-1.61	0.54-0.60dis	-1.49
Ecu†	1.1315 - 1.1460	1.1340 - 1.1350	0.48-0.47cpm	5.02	1.30-1.27pm	4.53

Commercial rates taken towards the end of London trading. † UK, Ireland and Ecu are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency.

EXCHANGE CROSS RATES

Jul 9	£	$	DM	Yen	F Fr.	S Fr.	N Fl.	Lira	C$	B Fr.	Pta	Ecu
£	1	1.482	2.550	162.5	8.668	2.268	2.868	2339	1.895	52.60	195.4	1.308
$	0.675	1	1.721	109.6	5.849	1.530	1.935	1578	1.279	35.49	131.8	0.883
DM	0.392	0.581	1	63.73	3.399	0.889	1.125	917.3	0.743	20.63	76.63	0.513
YEN	6.154	9.120	15.69	1000.	53.34	13.96	17.65	14394	11.66	323.7	1202	8.049
F Fr.	1.154	1.710	2.942	187.5	10.	2.617	3.309	2698	2.186	60.68	225.4	1.509
S Fr.	0.441	0.653	1.124	71.65	3.822	1	1.265	1031	0.836	23.19	86.16	0.577
N Fl.	0.349	0.517	0.889	56.66	3.022	0.791	1	815.6	0.661	18.34	68.13	0.456
Lira	0.428	0.634	1.090	69.47	3.706	0.970	1.226	1000.	0.810	22.49	83.54	0.559
C $	0.528	0.782	1.346	85.75	4.574	1.197	1.513	1234	1	27.76	103.1	0.690
B Fr.	1.901	2.817	4.848	308.9	16.48	4.312	5.452	4447	3.603	100.	371.5	2.487
Pta	0.512	0.758	1.305	83.16	4.436	1.161	1.468	1197	0.970	26.92	100.	0.669
Ecu	0.765	1.133	1.950	124.2	6.627	1.734	2.193	1788	1.449	40.21	149.4	1.

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100: Peseta per 100.

EURO-CURRENCY INTEREST RATES

FT LONDON INTERBANK FIXING

MONEY RATES

Treasury Bills (sell); one-month $5\frac{1}{2}$ per cent; three months $5\frac{1}{4}$ per cent; six months $5\frac{1}{4}$ per cent; Bank Bills (sell); one-month $5\frac{11}{32}$ per cent; three months $5\frac{5}{16}$ per cent; Treasury Bills; Average tender rate of discount 5.1496 p.c. ECGD Fixed Rate Sterling Export Finance. Make up day June 30, 1993. Agreed rates for period July 26, 1993 to Aug. 24, 1993 Schemes II & III: 7.18 p.c. Reference rate for period May 29, 1993 to June 30, 1993, Scheme IV&V: 5.939 p.c. Local Authority and Finance Houses seven days' notice, others seven days' fixed. Finance Houses Base Rate 6pc from July 1, 1993: Bank Deposit Rate for sums at 7 days notice $5\frac{7}{8}$ p.c.: Certificates of Tax Deposit (Series 6); Deposit £100,000 and over held under one month $2\frac{3}{4}$ p.c.; one-three months $5\frac{1}{4}$ p.c.; three-six months 5 p.c.; six-nine months $4\frac{3}{4}$ p.c.; nine-twelve months $4\frac{1}{2}$ p.c.; Under £100,000 $2\frac{3}{4}$ p.c. from Jan.27, 1993. Deposits withdrawn for cash $1\frac{1}{4}$p.c.

LONDON MONEY RATES

PHILADELPHIA SE £/$ OPTIONS

£31,250 (cents per £1)

Strike Price	Calls Jul	Calls Aug	Calls Sep	Calls Dec	Puts Jul	Puts Aug	Puts Sep	Puts Dec
1.425	5.42	5.65	5.96	6.88	0.02	0.54	1.20	2.99
1.450	3.09	3.77	4.27	5.44	0.13	1.16	1.99	4.02
1.475	1.26	2.31	2.88	4.22	0.75	2.15	3.04	5.27
1.500	0.32	1.30	1.91	3.22	2.30	3.57	4.51	6.73
1.525	0.04	0.65	1.18	2.48	4.45	5.42	6.26	8.33
1.550	0.01	0.25	0.68	1.80	6.87	7.51	8.19	10.14
1.575	-	0.09	0.35	1.29	9.33	9.80	10.36	12.10

Previous day's open int: Calls N/A Puts N/A (All currencies)
Previous day's volume: Calls N/A Puts N/A (All currencies)

BASE LENDING RATES

	%		%		%
Adam & Company	6	Cyprus Popular Bank	6	NatWestminster	6
Allied Trust Bank	6	Duncan Lawrie	6	Nykredit Mortgage Bnk	6.5
AIB Bank	6	Equatorial Bank plc	6	●Rea Brothers	6
●Henry Ansbacher	6	Exeter Bank Limited	7	Roxburghe Bank Ltd	6
B & C Merchant Bank	13	Financial & Gen Bank	7	Royal Bk of Scotland	6
Bank of Baroda	6	●Robert Fleming & Co	6	●Smith & Williamsn Secs	6
Banco Bilbao Vizcaya	6	Girobank	6	Standard Chartered	6
Bank of Cyprus	6	●Guinness Mahon	6	TSB	6
Bank of Ireland	6	Habib Bank AG Zurich	6	●United Bk of Kuwait	6
Bank of India	6	●Hambros Bank	6	Unity Trust Bank Plc	6
Bank of Scotland	6	Heritable & Gen Inv Bk	6	Western Trust	6
Barclays Bank	6	●Hill Samuel	6	Whiteaway Laidlaw	6
Brit Bk of Mid East	6	C. Hoare & Co	6	Wimbledon & Sth West	7
●Brown Shipley	6	Hongkong & Shanghai	6	Yorkshire Bank	6
CL Bank Nederland	6	Julian Hodge Bank	6		
Citibank NA	6	●Leopold Joseph & Sons	6		
City Merchants Bank	6	Lloyds Bank	6		
Clydesdale Bank	6	Meghraj Bank Ltd	6		
The Co-operative Bank	6	McDonnell Douglas Bk	6		
Coutts & Co	6	Midland Bank	6		
Credit Lyonnais	6	Mount Banking	6		

● Members of British Merchant Banking & Securities Houses Association

STOCK INDICES

	July 9	July 8	July 7	July 6	July 5	June 2	1993 High	1993 Low	Since Compilation High	Since Compilation Low
FT-SE 100	2843.2	2845.9	2848.3	2848.1	2838.5	2857.7	2957.3	2737.6	2957.3	986.9
FT-SE Mid 250	3236.8	3226.4	3219.9	3232.1	3219.0	3234.8	3241.7	2876.3	3241.7	1379.4
FT-SE-A 350	1424.8	1424.8	1425.1	1428.2	1421.2	1430.2	1457.1	1348.7	1457.1	664.5
FT-A All-Share	1411.46	1411.46	1411.73	1413.02	1408.36	1416.83	1438.22	1086.13	1438.22	61.92
FT-SE Eurotrack 100	1230.56	1225.73	1211.33	1203.04	1197.01	1201.31	1230.56	1083.02	1230.56	900.45
FT-SE Eurotrack 200	1274.12	1270.80	1260.04	1257.80	1253.51	1259.19	1274.12	1144.79	1274.12	938.62
FT Ordinary	2229.2	2227.8	2234.1	2235.0	2225.3	2237.9	2299.5	2124.7	2299.5	49.4
FT Government Secs.	97.89	97.86	97.87	97.90	97.74	97.39	98.04	93.28	127.40	49.18
FT Fixed Interest	116.00	115.90	115.92	115.90	115.79	115.48	116.00	108.67	116.00	50.53
FT Gold Mines	222.2	229.5	239.3	233.7	225.2	228.9	239.3	60.0	734.7	43.5

LONDON SHARE SERVICE

BRITISH FUNDS

BRITISH FUNDS - Cont.

OTHER FIXED INTEREST

Continued on next page

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co. and NatWest Securities Limited in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS (Figures in parentheses show number of lines of stock)	Fri Jul 9: US Dollar Index	% chg ($) since 31/12/92	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg from 31/12/92	Gross Div. Yield	Thu Jul 8: US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Dollar Index 1993 High	1993 Low	Year ago (approx)
Australia (68)	138.60	+10.8	138.70	96.06	124.01	134.68	+11.3	3.72	138.46	137.26	95.05	122.70	134.63	144.19	117.39	145.60
Austria (18)	147.91	+5.5	148.02	102.52	132.34	132.29	+12.7	1.47	147.30	146.03	101.12	130.53	130.66	150.96	131.16	166.79
Belgium (42)	146.96	+10.3	147.07	101.86	131.49	128.66	+17.8	4.45	146.81	145.54	100.77	130.09	127.26	156.76	131.19	149.16
Canada (108)	127.04	+9.9	127.13	88.05	113.66	117.56	+10.4	2.87	126.78	125.69	87.03	112.34	117.69	130.38	111.41	128.66
Denmark (33)	211.58	+13.7	211.74	146.65	189.31	191.29	+20.4	1.18	214.19	212.34	147.04	189.81	191.40	225.64	185.11	244.22
Finland (23)	98.99	+42.2	99.06	68.61	88.57	119.51	+56.4	1.02	99.76	98.90	68.48	88.40	119.59	100.92	65.50	78.88
France (96)	151.71	+3.1	151.82	105.15	135.73	139.22	+9.1	3.24	152.97	151.65	105.00	135.54	138.93	167.36	142.72	163.16
Germany (60)	113.82	+9.4	113.90	78.90	101.83	101.83	+16.2	2.08	114.30	113.32	78.48	101.29	101.29	117.10	101.59	128.99
Hong Kong (55)	284.61	+28.5	284.82	197.26	254.66	283.38	+28.7	3.33	286.97	284.50	197.00	254.32	285.55	301.61	218.82	252.27
Ireland (15)	156.80	+15.5	156.92	108.68	140.30	157.03	+33.2	3.44	155.93	154.58	107.04	138.18	154.08	170.40	129.28	158.62
Italy (70)	67.91	+23.8	67.96	47.07	60.76	80.06	+32.6	2.03	68.54	67.95	47.05	60.73	80.03	72.82	53.78	68.50
Japan (470)	145.73	+38.7	145.83	101.00	130.40	101.00	+21.9	0.82	145.48	144.23	99.87	128.94	99.87	155.96	100.75	100.47
Malaysia (69)	331.63	+26.8	331.87	229.85	296.72	328.76	+24.8	2.05	333.30	330.43	228.80	295.35	329.39	349.34	251.66	247.87
Mexico (19)	1521.04	-7.7	1522.16	1054.26	1360.94	5195.29	-7.6	0.95	1486.21	1473.38	1020.25	1317.03	5072.25	1725.81	1410.30	1394.63
Netherland (24)	166.72	+10.1	166.84	115.55	149.17	147.24	+17.1	3.73	168.09	166.64	115.39	148.96	146.99	172.75	150.39	165.62
New Zealand (13)	52.76	+23.0	52.80	36.57	47.21	50.89	+14.8	4.38	52.30	51.85	35.91	46.35	50.45	52.76	40.56	47.19
Norway (22)	157.03	+14.0	157.14	108.84	140.50	155.96	+20.6	1.69	156.75	155.39	107.60	138.91	154.03	166.21	137.71	173.53
Singapore (38)	248.61	+16.5	248.80	172.32	222.44	186.34	+15.5	1.85	249.52	247.37	171.29	221.12	186.80	262.72	207.04	220.89
South Africa (60)	205.68	+38.9	205.84	142.56	184.03	207.47	+32.0	2.44	207.79	206.00	142.64	184.13	209.14	211.77	144.72	203.93
Spain (44)	122.07	+4.7	122.16	84.61	109.22	122.07	+20.6	4.85	123.37	122.31	84.69	109.33	122.30	132.82	115.23	151.41
Sweden (36)	166.69	+0.7	166.81	115.54	149.15	196.98	+13.6	1.71	166.36	164.93	114.21	147.43	194.87	184.06	149.70	195.27
Switzerland (50)	127.05	+12.4	127.14	88.07	113.69	120.55	+17.4	1.60	128.19	127.09	88.01	113.61	120.40	129.36	108.91	112.33
United Kingdom (219)	171.46	-0.5	171.58	118.83	153.40	171.58	+1.7	4.04	173.18	171.68	118.87	153.45	171.68	181.99	162.00	190.88
USA (519)	183.47	+3.0	183.60	127.17	164.16	183.47	+3.0	2.79	183.61	182.02	126.05	162.71	183.61	188.27	175.38	168.79
Europe (752)	142.88	+5.0	142.98	99.03	127.84	137.70	+10.3	3.23	144.01	142.76	98.86	127.62	137.45	149.02	133.92	154.25
Nordic (114)	160.29	+8.1	160.41	111.10	143.42	165.42	+18.9	1.50	160.72	159.33	110.33	142.42	164.31	171.77	142.13	180.96
Pacific Basin (713)	149.61	+36.4	149.72	103.70	133.87	107.53	+21.7	1.10	149.46	148.17	102.60	132.45	106.50	159.07	105.89	107.11
Euro-Pacific (1465)	146.74	+21.9	146.85	101.70	131.29	120.11	+16.7	1.95	147.11	145.84	100.98	130.36	119.34	154.05	117.26	126.17
North America (627)	179.95	+3.3	180.08	124.74	161.04	178.98	+3.3	2.79	180.07	178.52	123.63	159.60	179.12	182.38	171.51	166.27
Europe Ex. UK (533)	124.82	+9.1	124.91	86.53	111.71	117.96	+16.7	2.69	125.63	124.54	86.26	111.35	117.56	128.65	112.51	132.00
Pacific Ex. Japan (243)	188.16	+20.9	188.30	130.44	168.37	173.56	+20.3	3.17	188.88	187.25	129.68	167.39	174.12	194.06	152.70	172.47
World Ex. US (1652)	147.52	+21.5	147.63	102.26	132.00	122.24	+16.4	1.98	147.86	146.58	101.51	131.03	121.48	154.27	118.51	127.87
World Ex. UK (1952)	157.31	+15.3	157.43	109.04	140.77	138.05	+11.8	2.11	157.45	156.09	108.09	139.54	137.51	161.34	134.22	135.96
World Ex. So. Af. (2111)	158.35	+13.4	158.47	109.77	141.70	140.62	+10.6	2.29	158.61	157.24	108.89	140.56	140.11	162.74	137.29	140.33
World Ex. Japan (1701)	167.25	+5.1	167.37	115.93	149.67	163.67	+8.7	2.94	167.78	166.33	115.19	148.71	163.66	170.05	157.47	163.21
The World Index (2171)	158.58	+13.6	158.70	109.92	141.90	141.17	+10.8	2.29	158.85	157.48	109.05	140.78	140.68	162.86	137.32	140.70

Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local); Nordic: Dec 30, 1988 = 139.65 (US $ Index), 114.45 (Pound Sterling) and 123.22 (Local). Copyright, The Financial Times Limited, Goldman, Sachs & Co. and NatWest Securities Limited. 1987
Constituent change during the week ending 9/7/93: Deletion: Asland (Spain).

MONEY MARKET FUNDS

Money Market Trust Funds

Money Market Bank Accounts

NOTES- Gross: Contractual rate of interest payable not taking account of the deduction of basic rate income tax. Net: Rate of interest payable after allowing for deduction of basic rate income tax. Gross CAR: Gross rate annualised to take account of compounding of interest paid other than once a year. 'Compounded Annual Rate' Int Cr: Frequency at which interest is credited to the account.

AMERICANS

	Notes	Price £	W'k% ch'nge	Div gross	Dividends paid	Last xd	City line
Abbott Labs		17¼xd	0.9	88c	FeMyAuNv	13.4	1503
Allegheny & W	♥	634p	3.6	30c	–	–	–
Amdahl		338p	–5.6	5c	NvFeJeAu	31.1	–
Amer Cyanamid		36	1.4	$1.65	MrJeSeDe	4.3	–
Amer Express		20¼xd	0.6	$1.00	FeMyAuNv	5.7	1594
Amer T & T		41⅞xd	–	$1.32	FeMyAuNv	25.6	1597
Ameritech		53	–.7	$3.68	FeMyAuNv	28.3	–
BankAmerica		30⅛xd	0.6	$1.40	MrJeSeDe	08.6	1744
Bankers NY		62¼xd	5.0	$3.12	ApJyOcJa	24.12	1745
Bell Atlantic		39½	–	$2.68	FeMyAuNv	4.7	–
BellSouth		37½	2.0	$2.76	FeMyAuNv	5.4	–
Bethlehem Steel	♥	11⅝xd	–3.5	–	MrJeSeDe	6.2	1821
Bowater		1325pxd	2.7	80c	OcJaApJy	9.3	1884
CPC		27¼xd	1.3	$1.28	JaApJyOc	25.6	2263
California Engy		1234p	–13.8	–	–	–	–
Chase Manhattan		22⅞xd	3.2	$1.20	FeMyAuNv	27.4	2109
Chrysler		31⅞xd	2.7	60c	ApJyOcJa	15.6	2135
Citicorp		21¼xd	5.6	–	–	23.10	2141
Colgate-Palm		36xd	–3	$1.44	FeMyAuNv	22.7	2184
Cont'l Bank		1665p	5.2	80c	DeMrJeSe	31.5	–
Dana		35¼xd	–.4	$1.60	MrJeSeDe	26.5	2306
Data General		685p	–8.2	–	–	–	–
Decora Inds	♥	136p	–.7	–	†	–	–
Dun & Brad		40	2.2	$2.44	MrJeSeDe	13.2	–
Eaton	h	29⅛xc	–1.3	$1.10	FeMyAuNv	2.2	2410
Echlin		18⅞xd	1.2	70c	JaApJyOc	30.6	3046
FPL		28⅛xd	0.5	$2.48	MrJeSeDe	25.5	–
Ford Motor		34¼xd	1.5	$1.60	MrJeSeDe	27.4	2615
Gen Elect		65xd	3.3	$2.52	JaApJyOc	3.6	2675

CANADIANS

BANKS

BREWERS & DISTILLERS

BUILDING MATERIALS

BUILDING MATERIALS - Cont.

BUSINESS SERVICES

CHEMICALS

CONGLOMERATES

CONTRACTING & CONSTRUCTION

CONTRACTING & CONSTRUCTION - Cont.

ELECTRICALS

ELECTRICITY

ELECTRONICS

ENGINEERING-AEROSPACE

ENGINEERING-GENERAL

ENGINEERING-GENERAL - Cont.

FOOD MANUFACTURING

FOOD RETAILING

HEALTH & HOUSEHOLD

HOTELS & LEISURE

HOTELS & LEISURE - Cont.

INSURANCE BROKERS

INSURANCE COMPOSITE

INSURANCE LIFE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

INVESTMENT TRUSTS - Cont.

[illegible]

INVESTMENT COMPANIES

[illegible]

MEDIA

[illegible]

MERCHANT BANKS

[illegible]

METALS & METAL FORMING

[illegible]

MISCELLANEOUS

[illegible]

MOTORS

[illegible]

OIL & GAS

[illegible]

OIL & GAS - Cont.

[illegible]

OTHER FINANCIAL

[illegible]

OTHER INDUSTRIALS

[illegible]

PACKAGING, PAPER & PRINTING

[illegible]

PACKAGING, PAPER & PRINTING - Cont.

[illegible]

PROPERTY

[illegible]

STORES

[illegible]

TELEPHONE NETWORKS

[illegible]

TEXTILES

[illegible]

TRANSPORT

[illegible]

WATER

[illegible]

SOUTH AFRICANS

[illegible]

PLANTATIONS

[illegible]

MINES

[illegible]

MINES - Cont.

[illegible]

	Notes	Price	+/-	Mkt cap	Yld		Last xd	City line
Ivernia West IE	‡‡□	40	−16.7	–	–	–	–	3741
Kells Mins IE	‡‡	13	–	–	–	–	–	1453
Kenmare	□	8	–	–	–	–	–	–
Mafinga Res.		14½	−3.3	–	–	–	–	1185
Navan Res IE		86½	−3.9	–	–	–	–	–
5pc Ln Notes		86½	−3.9	–	–	–	–	3686
Oryx Gold		76¼	1.3	–	–	–	–	1470
‡‡Ovoca Res IE		3½	–	–	–	–	–	–
RTZ	□	678	0.6	19.8	1.3	Dec Aug	7.6	3880
Vizcaya		6¼	–	–	–	–	–	4193

GUIDE TO LONDON SHARE SERVICE

Company classifications are based on those used for the FT-Actuaries Indices and FT-Actuaries World Indices.

Closing mid-prices are shown. Prices and net dividends are in pence unless otherwise indicated.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Dividend covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Market Capitalisations are published on Tuesdays-Saturdays except for Investment Trusts and British Funds.

□ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ).
● "Tap Stock"
† Interim since increased or resumed
‡ Interim since reduced, passed or deferred
‡‡ Tax-free to non-residents on application
◆ Figures or report awaited
♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
♣ Free annual/interim report available, see details below.
✡ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
‡‡ Not officially UK listed; dealings permitted under Rule 535(2)
‖ Price at time of suspension
¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
♦ Merger bid or reorganisation in progress
§ Forecast dividend; cover based on earnings updated by latest interim statement.
♠ Unregulated collective investment scheme.

a Annualised dividend.
b Figures based on prospectus or other official estimates.
c Cents.
f Flat yield.
g Assumed dividend.
h Assumed dividend after scrip issue.
m Interim higher than previous total.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend excludes a special payment.
t Indicated dividend: cover relates to previous dividend.
u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings.
v Not subject to ACT.
z Dividend includes a special payment: Cover does not apply to special payment.
E Auction basis
F Dividend based on prospectus or other official estimates for 1994-95.
G Assumed dividend after pending scrip and/ or rights issue.
H Dividend based on prospectus or other official estimates for 1993.
K Dividend based on prospectus or other official estimates for 1992-93
L Estimated annualised dividend, cover based on latest annual earnings.
M Dividend based on prospectus or other official estimates for 1993-94.
N Dividend based on prospectus or other offical estimates for 1992.
P Figures based on prospectus or other official estimates for 1994.
Q Gross.
R Forecast annualised dividend, cover based on prospectus or other official estimates.
T Figures assumed.
W Pro forma figures.
Z Dividend total to date.

Abbreviations:
xd ex dividend;
xc ex scrip issue;
xr ex rights;
xa ex all;
xd ex capital distribution

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1235 a year for each security shown, subject to the Editor's discretion

FT Share Service

The following changes have been made to the FT Share Information Service: Additions: Pilkington Warrants (Bld Materials), Phonelink (Electronics), First Spanish Cv Warrants (Inv Trusts) and Inveresk (Pckg & Paper). Deletions: Wheway (Eng General), CST Emer Asia Ord And Warrants (Inv Trusts), Thames TV (Media) and Forsayth (Mines).

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An international service is available for callers outside the UK, annual subscription £250 stg.

Call 071-873 4378 (+44 71 873 4378, international) for more information on FT Cityline.

4 pm close July 9

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1993 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chge Prev. Close
14⅝	11½	AAR Corp	0.48	3.6	26	136	13⅞	13½	13⅝	
29⅞	20	A L Labs A	0.18	0.7	45	191	26	25¾	25¾	-¼
63⅞	54⅝	AMP Inc	1.60	2.6	22	1628	61⅝	61¼	61¼	-¼
72¾	55½	AMR			9	2325	61⅞	61	61½	-⅜
2¾	1⅜	ARX			17	530	u2⅞	2⅝	2¾	
51½	29⅞	ASA	2.00	4.2	81	625	48⅝	47¾	48⅛	-¼
30¾	22⅝	Abbott Lab	0.68	2.7	16	16009	25⅝	24¾	25¼	-½
12⅝	10¼	AbitibiPr	0.50	4.8	4	5	10½	10½	10½	
14⅛	8¾	Acclaim			216	723	13	12¾	13	+¼
32	25½	ACE Ltd	0.40	1.4		668	29	28⅝	29	+⅜
11⅞	10¾	ACM Gvt In x	0.96	8.1		432	u11⅞	11¾	11⅞	
10	9⅛	ACM GvOpp x	0.80	8.1		78	u10	9¾	9⅞	
9⅝	8¾	ACM Gvt Sp x	0.80	8.4		194	9½	9⅜	9½	+⅛
11⅞	10½	ACM Gvt Se	0.96	8.3		1574	u11½	11¼	11½	+¼
11⅛	9⅝	ACM Man x	1.08	9.7		279	u11¼	11	11⅛	
9⅝	8⅝	ACM MangdI x	0.72	7.6		132	9¼	9⅛	9¼	+¼
12¼	7⅜	Acme Cleve	0.40	3.3	15	294	u12⅜	12	12	-¼
9¼	6½	Acme Elect			258	4	7¾	7¾	7¾	-⅛
24¾	18⅜	Acordia	0.44	1.9	13	84	22⅝	22½	22⅝	-⅛
16	10⅝	Acuson			12	102	11⅝	11½	11⅝	
22¼	19⅝	Adams Expr	0.48	2.3	1	97	20¾	20½	20¾	+¼
66	45½	Adv Micro	3.00	5.5		47	55⅝	54½	54½	-¼
32¾	17⅝	Adv Micro P	3.00	12.1	9	4391	25⅛	24¾	24⅞	+⅛
7¾	6½	Advest Grp	0.16	2.7	9	227	5⅞	5¾	5⅞	+⅛
24¾	18	Aetna Inc	0.08	0.4	20	128	18½	18½	18½	+¼
49⅝	41⅛	Aegon ADR	2.95	6.6	9	42	44¾	44⅛	44¾	-⅛
58¼	43⅜	Aetna Lf	2.76	4.9	143	1620	u56¼	55¾	55⅞	-⅛

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- L -

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- M -

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- R -

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Continued on next page

4 pm close July 9

NYSE COMPOSITE PRICES

Continued from previous page

NASDAQ NATIONAL MARKET

4 pm close July 9

AMEX COMPOSITE PRICES

4 pm close July 9

MONDAY INTERVIEW

Optimist's upward curve

Daniel Tully, chairman of Merrill Lynch, talks to **Patrick Harverson**

A golf club rests against a table, pictures of his family adorn the walls, but no stock market computer screens clutter the desk of the chairman of America's most powerful financial company.

Mr Daniel Tully, who a week ago took over the helm of Merrill Lynch, the largest securities house in the US, does not fit the popular image of Wall Street's elite.

Instead of the intense, blue-blooded financier that people might expect to run one of the nation's largest investment banks and securities houses, Mr Tully is a big, cheerfully confident Irish New Yorker, the son of a dockside steam-fitter from the borough of Queens.

He believes his Irish heritage has helped him to manage a big company with a large number of staff. "The Irish have a certain empathy, compassion and a willingness to put themselves in the other person's shoes."

He admits that, when he started in the securities business in 1955, he knew nothing about stockbroking. Neither, it seems, did his mother. Laughing at the memory, he says: "When I got the job that day, and went home and told my mother that I had a job with Merrill Lynch, Pierce, Fenner & Beane, she said: 'That's great son. I always knew you would do well in the advertising business.'"

While he might not have done well in advertising, the 61-year-old Mr Tully has thrived in stockbroking. After joining Merrill's accounting department, he worked up through the firm's broking workforce, moving to the New York head office in 1976.

Six years later, Mr Tully was made head of the firm's private client business, and in 1985 he was appointed president and chief operating officer. From 1985, he ran Merrill with his long-time friend and partner, Mr William Schreyer, who was chairman until his retirement two weeks ago.

During Mr Tully and Mr Schreyer's tenure, Merrill has grown from one of several dominant firms on Wall Street, to *the* dominant force. Today, the firm is pre-eminent in almost every area of the US capital markets – its brokers earn more commissions than any other firm, its investment bankers underwrite the most corporate stock and bond issues, and its investment managers handle more client assets than any financial institution except Fidelity, the mutual funds group.

Despite the firm's growth, Mr Tully's stint at the top has not been problem-free. In the latter part of the 1980s, Merrill's rapid expansion left it with an average return on equity of only 10.8 per cent, well below the industry average of 15 per cent and in 1989 it made a loss of $213m (£142m).

At the time, Mr Tully and Mr Schreyer were criticised for allowing Merrill to get badly out of shape. Critics and analysts argued that the duo were great salesmen, but lacked the modern management skills to guide a giant securities house into the 1990s.

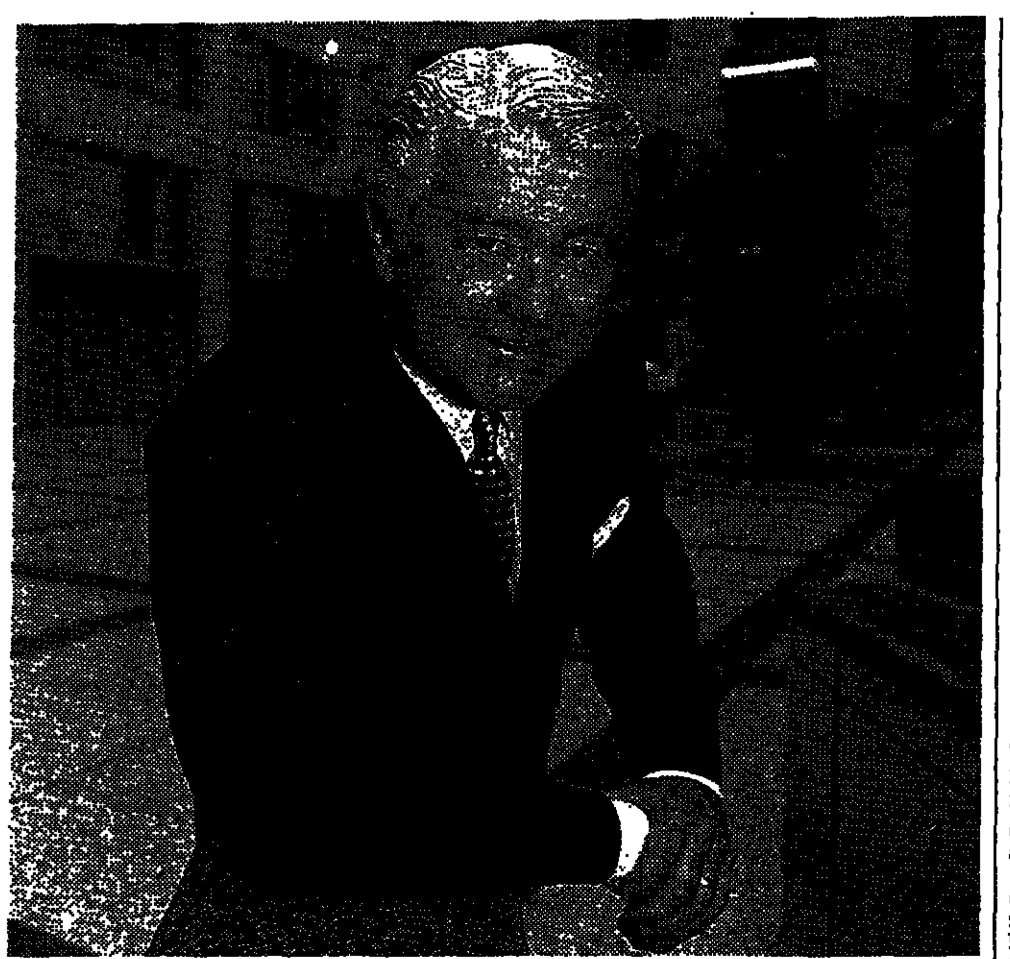
The two responded with a three-year cost-cutting programme, which shrank Merrill's workforce from 50,000 to just over 40,000. Mr Tully patrolled the firm's offices, slapping small red dots on equipment and furniture that he believed was surplus to Merrill's needs.

Today, the red dots have gone but, says Mr Tully, the attention to cost control has not. Merrill employs what its chairman calls the "burden of proof" policy, which regularly asks every unit to justify why it should remain part of Merrill Lynch. Mr Tully says: "The burden of proof is on that organisation to come back to us and sell management on why they are critical and integral to our long-term strategy and success." If the management is not convinced, out comes the axe.

While retreating from some businesses, Merrill has been expanding in others – most notably asset management. In common with other big Wall Street firms, Merrill wants to build up its fee-based revenues as an insurance against the volatility of its more cyclical businesses such as trading, broking and underwriting.

Today, Merrill's recurring revenues cover half of its fixed costs. Mr Tully wants all of the fixed costs covered by the end of the decade. If that target is reached, Merrill's earnings from broking commissions, trading and investment banking would be pure profit.

Back in 1955, when Mr Tully joined Merrill, broking commissions represented virtually all of the firm's earnings.



'I don't think the future has ever been brighter'

Twenty years later, however, the industry abandoned fixed broking commissions and Merrill, like many Wall Street firms, decided to offer a broader range of services to clients and lock them into long-term relationships.

Consequently, the Merrill of the 1990s is much more than a broker. It is a large financial services supermarket. It offers individual and corporate clients everything from banking-type products such as cash accounts, cheque books and mortgages, to services such as insurance, business loans, stockbroking, investment management and high-tech corporate finance.

PERSONAL FILE

- **1932** Born in Queens, New York.
- **1953** Graduated from St John's University, New York.
- **1955** Started at Merrill Lynch.
- **1959** Account executive in Stamford, Connecticut.
- **1970** Manager of Stamford office.
- **1976** Individual sales director, head office.
- **1982** Executive vice-president and head of Individual Services Group.
- **1985** President and chief operating officer.
- **1992** Chief executive.
- **1993** Chairman.

Mr Tully thinks that the firm should follow the clients' needs, rather than the other way round. "The logic is, if you focus on your clients, then you change along with them as they go through their life. It's a recognition that the only constant is change."

This attention to the client, he believes, has turned Merrill into the country's biggest securities house. In spite of the firm's size and the complexity of its business, Mr Tully has always adopted a style of management that is straightforward, upbeat and reminiscent of another Irish American, former President Ronald Reagan.

Mr Tully says: "I think you could liken my style, absolutely, to a Ronald Reagan; that is, someone who has vision, principles and who will not get mired down in the details. That does not mean you don't have a great knowledge and understanding of the business, but it's built on mutual respect and trust and the dignity of fellow-individuals. You've got to believe that from the bottom of your mind and heart. I believe it. I trust people."

He trusts his senior managers to get on with managing the firm while he travels, meeting clients and employees. Slipping into one of his many anecdotes, he says: "At a recent conference someone said to me: 'Mr Tully, how can you manage forty-some thousand people, and $120bn of balance sheet?' I said: 'I don't. It's 11.15am and I haven't spoken to my office yet.' I said: 'Someone is managing 40,000 people, and a lot of people are managing the balance sheet.' Part of my executive responsibility is to set priorities, allocate resources and set the tone and principles which will guide us through the good times and the bad."

He comes down hard, however, on employees that abuse his trust. "If you go outside the parameters," he says, making a slicing motion across his knees with his hand, "I'm not very tolerant."

Otherwise, he seems a tolerant man and, despite his avowed fondness for former President Reagan, broadly supportive of the current Democrat president. "I applaud President Clinton's deficit-reduction goal, but would prefer it if he accomplished more through spending cuts rather than tax increases." In particular, he is disappointed that there is little in Mr Clinton's economic policy that encourages savings and investment.

Mr Tully is extremely positive about the US, despite the country's economic and social problems. Asked if the American dream has fizzled, he answers vehemently: "Hell no. I don't think the future has ever been brighter. You look at all the trends in the United States, and you might see a little ripple, but the long-term trends are extremely positive. Every chart I look at starts in the lower left-hand corner and goes to the higher right-hand corner."

Sitting in his spacious office, with its view of the river, and those twin symbols of hope – Ellis Island and the Statue of Liberty – Mr Tully is the embodiment of the American optimist. There is nothing wrong, he says, with being an optimist. After all: "I've never met a rich pessimist."

President Clinton's economic Jeeves

MICHAEL PROWSE on **AMERICA**

It may seem absurd to compare Mr Robert Rubin, the director of the White House National Economic Council, with Bertie Wooster's fictional manservant Jeeves. Yet in a town over-populated with brash, assertive personalities, his self-effacing, low-key demeanour really does bring the omniscient Jeeves to mind.

Gleefully playing up Mr Rubin's deferential style, the *Washington Post* recently reported his habit of prefacing his rare interjections in White House meetings with the words "in my humble opinion." One can almost imagine him presenting economic options to Mr Clinton on a silver platter: although he knows 10 times as much about finance as the president, he apparently hesitates to indicate a strong preference for one policy over another.

Mr Rubin's apparent lack of ego is seen as especially puzzling given that he has spent his working life on Wall Street. One of the most successful arbitrageurs of his generation, he ended up as a co-chairman of Goldman Sachs, the investment bank. Last year he reported earnings of $26.5m (£17.6m), making him unusually wealthy, even by the standards of Mr Clinton's well-heeled Cabinet.

During a 40-minute interview in his panelled office in the west wing of the White House, Mr Rubin stuck resolutely to his type-casting. I could not get him to express a really strong opinion about anything, even off the record. When asked for his personal views, he tended to reply by deftly outlining the president's policies on the topic in question.

Yet as director of the NEC, Mr Rubin is potentially the most powerful economic official in Washington. He co-ordinates the activities of all the other economic agencies and enjoys daily access to the president; more than anybody else, he is the prism through which Mr Clinton views the economic world. Yet he rejects flatly any suggestion that he has a specially important role. He is certainly not Mr Clinton's economic chief of staff, he says, because that would imply the heads of other agencies report to him, which they do not.

Does he accept the common criticism that he is too reluctant to express his own views on policy issues?

"People say that. I really think it's not correct. What you have to do in this job is to perform your co-ordinating function with real intellectual integrity so that everybody feels their views are laid out fully and fairly. Then, separately, you can express your own personal views...I don't thump tables but I don't feel any reticence about coming forward with my views."

Whatever he says, it is hard to believe that Mr Rubin does harbour strong personal views on economic policy. What really seems to excite him is teamwork and the process of brokering agreements. In helping devise the US's new hard-nosed trade policy towards Japan, for example, Mr Rubin got "seven, eight, maybe 10 agencies around the table." The marathon debate that ensued was apparently unprecedented in that policies towards Japan have usually been fashioned independently in particular agencies, such as the treasury, state or commerce departments.

Yet it was typical of Mr Rubin's mission at the NEC, which is to bring to economic policy-making the kind of coherence and co-ordination that has long characterised foreign and diplomatic policy. The NEC is thus consciously modelled on the National Security Council and Mr Rubin regards his role as precisely analogous to that of Mr Anthony Lake, the national security adviser.

Mr Rubin's council has undoubtedly played an important role in formulating budgetary and trade policy. But quite how far its influence will ultimately stretch remains unclear. During the election campaign, there was speculation that a Clinton administration would move beyond traditional macroeconomic policies and take an active interest in the performance of individual industries, especially in high-tech sectors. Does Mr Rubin personally have faith in "industrial policy."

I expected – and got – an equivocal response. "Industrial policy is a funny word," he says. "To 100 people it will mean 200 different things – everybody has at least two different definitions in mind." However, he believes there may be "externalities" that could justify a more active government role in some areas. He will not elaborate because he does not want to prejudge the outcome of the few sectoral studies currently under way. Characteristically, all he can promise is that a premium will be placed on inter-departmental co-operation. "There will be Laura [Tyson], Bob Reich, Lloyd Bentsen, Leon [Panetta] and myself – and others – sitting at the table and working it out together as opposed to something happening in one agency that others don't agree with."

Mr Rubin is urbane, courteous and, above all, non-ideological. His self-effacing style is a breath of fresh air in Washington and has gone down well with more overtly ambitious colleagues. He deserves credit for striving to create a more rational and co-operative policy making apparatus. But whether his committee system, which gives a voice to all interested parties in the federal government, will produce effective policies remains an open question. Unless the NEC's able director provides a stronger sense of direction, some observers worry it will end up producing camels.

No nukes is good nukes

IAN DAVIDSON on **EUROPE**

David Gergen and the other news manipulators did a fine job for their political masters at the meeting of the Group of Seven leading industrial nations in Tokyo last week. They got great headlines for the "agreement" on a Gatt deal, for the group's hypocritical words on Bosnia, for the $3bn (£2bn) aid package for Russia. Considering that the meeting had gathered amid a general consensus that the G7 was a busted flush, and the seven leaders the most discredited bunch in recent history, this was quite an achievement for the spin merchants.

A by-product of this was that the news managers were able to downplay one of the most serious items on the G7 agenda: the prospect that the world is on the threshold of an ominous, and quite possibly dangerous, proliferation of nuclear weapons. The issue is mentioned in the final communique, but in such deadpan terms that it remained safely on the inside pages.

The first and most immediate cause of anxiety is Ukraine, which after long debate now seems determined to hang on to at least some of the 176 strategic nuclear missiles which were part of the Soviet arsenal and happened to be based on Ukrainian territory. This could jeopardise the radical US-Russian nuclear arms reductions treaties signed only six months ago; but it could also give new and dangerous encouragement to other countries to acquire nuclear weapons.

Then there is North Korea, which is probably engaged on building up its own nuclear weapons capability, in defiance of its commitment not to do so under the multilateral nuclear Non-Proliferation Treaty (NPT). This is a particularly disturbing break-out by a hard-line, communist and militaristic country. Last week in Tokyo, Japan made it clear that it would regard a nuclear-armed North Korea as a serious threat to its national security. Japan could probably build nuclear weapons and their delivery systems in very short order, if it decided to go down that road. So if North Korea becomes a nuclear weapons state, we should assume that Japan will, too.

Whether anything can be done to stop North Korea is uncertain. The Americans have been trying diplomatic arm-twisting in bilateral talks, apparently with only modest success: Washington is now talking of international sanctions.

Ukraine has not stated unambiguously its intention to become a nuclear weapons state; but that seems the direction it is heading. President Leonid Kravchuk said last week that the nuclear missiles should be declared "national property" (whatever that means) – until they are destroyed. Prime Minister Leonid Kuchma went further, and said that Ukraine should formally proclaim itself a nuclear weapons state – until the weapons are removed and destroyed. In the meantime, US intelligence suspects that the Ukrainians are working on the electronic codes which control the missiles, and may be able to crack them in the not-too-distant future.

Ukraine's fundamental objectives remain ambiguous, because the political class is divided. Sometimes it seems they are just using the missiles as bargaining counters, to get more financial aid from the west; such an objective can only have been reinforced by the Tokyo meeting, which offered $3bn to Russia but nothing to Ukraine. But sometimes it seems they regard the missiles as a security guarantee against possible Russian aggression; and would only give them up in exchange for a security guarantee from the west. If that is the bottom line, Ukraine will keep the missiles, because the west will not give such a guarantee.

In the meantime, Ukrainian foot-dragging is blocking the implementation of the second Strategic Arms Reduction Treaty (Start-II) agreed only six months ago by George Bush and Boris Yeltsin. That agreement should reduce the long-range nuclear arsenals of Russia and the US by about two-thirds, from some 11,000-12,000 warheads each to about 3,500 by early next century. But this treaty cannot go into effect, because Ukraine has not ratified the previous Start-I treaty of 1991 on which Start-II is built.

But if nuclear proliferation by Ukraine is a by-product of the disintegration of the Soviet Union, it may be part of a more general pattern. Kazakhstan is another republic with some former Soviet weapons; but whereas Kazakhstan has ratified Start-I, it has not signed the NPT as a non-nuclear weapons state. Iraq's incentive to go nuclear has been intensified by the end of the cold war, since it can no longer rely on Soviet military support against the west. Even North Korea may see the end of the cold war as a reason to build up its national "security".

As a result, the official nuclear powers are urgently trying to rebuild the political credibility of the non-proliferation regime. President Bill Clinton has extended the US moratorium on nuclear testing for another 15 months, and Russia and France have both given their support to a comprehensive test ban. The UK government does not share their enthusiasm, but has enough sense not to object.

The probable collapse of the non-proliferation dyke will have far-reaching consequences. If nuclear weapons are no longer restricted to the very few, those who used to claim to be the only legitimate members of the nuclear club will need new justifications for their political privileges, starting with permanent membership of the UN Security Council. Sooner or later, Germany and Japan must get permanent seats, and it would be better if they did so without acquiring nuclear weapons. Britain and France should make a virtue of necessity, and urge their admission.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

Provisional Price for Trading on [illegible] | Final Prices for Trading on [illegible]

Columns: 1/2 hour period ending | Pool purchase price £/MWh | Pool purchase price £/MWh | Pool selling price £/MWh

[illegible]

Prices are also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool by Energy Settlements and Information Services Limited. Anyone wishing to receive such information should telephone 0602-456789 between 8.30am and 5.15pm Monday to Friday.

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Columns: 1/2 hour period ending | Pool purchase price £/MWh | Pool purchase price £/MWh | Pool selling price £/MWh

[illegible]

... the same as final pool prices for that day. Final pool prices are also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool by Energy Settlements and Information Services Limited. Anyone wishing to receive such information should telephone 0602-456789 between 8.30am and 5.15pm Monday to Friday.

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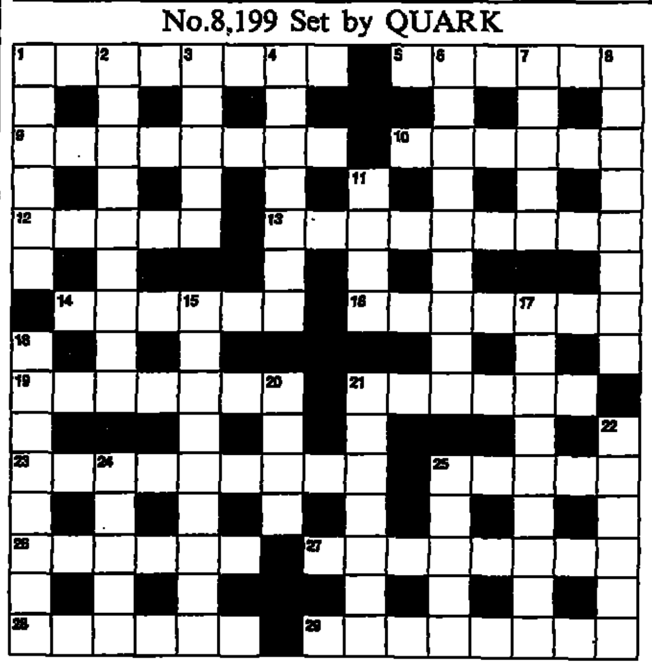
CROSSWORD

No.8,199 Set by QUARK



ACROSS

1 State of mind after batting? You need to inject enthusiasm (8)
5 Relatively reckless one could get a grilling (6)
9 Thus possibly usurps one with gloomy disposition (8)
10 Artist comes back into row for list of charges (6)
12 Box one with the clubs, say (5)
13 Trial and goal unsettled this river dweller (9)
14 Small person encountered round new dig (6)
16 US store dealing in Indian silk (7)
19 The way lathe turns in an underhand procedure (7)
21 With reference to name, speak out (6)
23 25 across will maybe acquire it (9)
25 One likely to see the light? (5)
26 Holder of post that ought to be dealt with (2-4)
27 In favour of benefit the north abandoned (8)
28 King leading a charge in kind of combat (6)
29 Transport centre when reorganised introducing a bit of noise (8)

DOWN

1 Tick in school? (6)
2 Extract. Result of dentist's work? (5,4)
3 Absolutely not the first to make suggestion (5)
4 Second of the present month (7)
6 Ealing comedy's beginning as riotous as anodyne (9)
7 Included in doubts – 10 heavyweights coming up in lift! (5)
8 Improved cast in the plant (8)
11 It could be in a block lacking excitement (4)
15 Girl left boy with bit of tendency to flirt (9)
17 Direct KO puts one out (9)
18 This character is a star in print (8)
20 A hard fall (4)
21 Adversely criticise the detailed analysis (3-4)
22 Sulphide ore not quite mixed thoroughly (6)
24 Unmitigated state (5)
25 Person half grasps old style brain-teaser (5)

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday July 24.

هكذا في الأصل